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MINING MELTDOWN:
CAN THE TURNAROUND PLANS SAVE THE SECTOR?

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LESSONS FROM A MARKET COLLAPSE

FINWEEK EDITOR
JANA MARAIS WRITES:

When the global economy came crashing down in 2008, I was working as a market reporter in London covering the raw materials used in steelmaking, mainly scrap metal and pig iron. Unlike commodities like gold and copper, these metals did not trade on an exchange, and my job was to call traders across Europe, the Middle East and Africa for information in order to compile our weekly price lists.

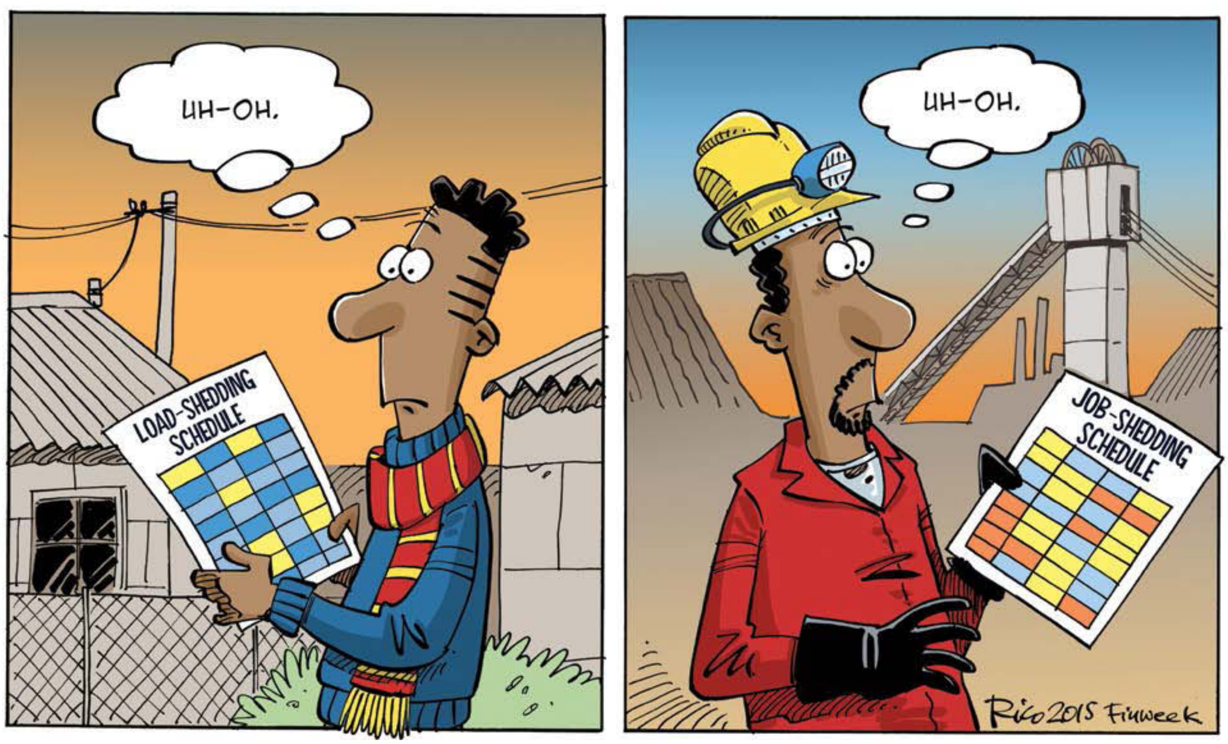
It was incredible to watch supply and demand in action. Prices reached new records almost weekly as China's phenomenal demand for commodities continued to increase, forcing Europe's steel mills and foundries also to pay top dollar to get their hands on enough stock. Then Lehman Brothers collapsed in September, and the market shut down almost overnight. Bank financing dried up, buyers cancelled contracts, leaving scrapyards out of pocket, and prices fell off a cliff.

Steelmakers cut down on production and idled furnaces, scrapyards closed down, and thousands of jobs were lost across Europe. As supply was taken out of the market (and some government programmes were implemented to stimulate demand for things like cars), prices started improving – and the number of sports cars in the parking lots of Birmingham's scrapyards increased again.

This same story is currently playing out in the mining industry. As the sector is cyclical by nature, one would think executives have become better over the years at managing the pain when things start to go bust. David McKay's excellent cover story (see page 12) on the industry's woes and what needs to be done before we'll see some positive developments suggests the sector still has some lessons to learn. ■

Double take

finweek



PAIN FOR OIL RELIEF FOR MOTORISTS

A GS Caltex oil refinery in South Korea. According to Reuters, the oil price continued to experience downward pressure as Asian traders took note of Opec production figures, which indicated that 31.25m barrels of oil had been produced per day during the second quarter. This was 3m more than the daily demand of 28.26m, Reuters reported.

According to Reuters, at the time of going to print, Brent futures for September were at $53.08, while US crude for September delivery was at $47.78 per barrel.

Meanwhile, the Automobile Association of South Africa said it was expecting local fuel prices to go down on 5 August on the back of the downward trend in international oil prices. It expected the petrol price to decrease by between 47c/l and 49c/l, diesel by about 70c/l, and paraffin by about 68c/l, Fin24 reported.

Picture: SeongJoon Cho/Bloomberg via Getty Images

In Brief

BEATING CANCER

$1.7BN

French pharmaceutical giant Sanofi will pay at least $1.7bn (R21.4bn) to enter a new collaboration with biotechnology firm Regeneron Pharmaceuticals to develop drugs that harness the body's immune system to fight cancer, nytimes.com reported. The two groups received regulatory approval on 24 July for their first jointly developed product, Praluent, a drug that lowers cholesterol, nytimes.com said.

TOUGH TEST

42%

The pass rate of the first level for the Chartered Financial Analyst (CFA) exam, written globally in June and seen as a key qualification for anyone who wants to build a career in investment management. Nearly 160 000 people were registered to take the first-level test in 174 countries in June. Only 46% of candidates passed the second level.

CAR SALES

5.04M

Germany's Volkswagen sold 5.04m cars over the first six months of 2015, making it the world's biggest vehicle seller for the period, overtaking Japan's Toyota for the first time ever, reported bbc.com. Toyota sold 5.02m cars over the same period. Volkswagen enjoyed strong growth in sales in China, where it currently sells a third of its vehicles.

EXITING NEWSPAPERS

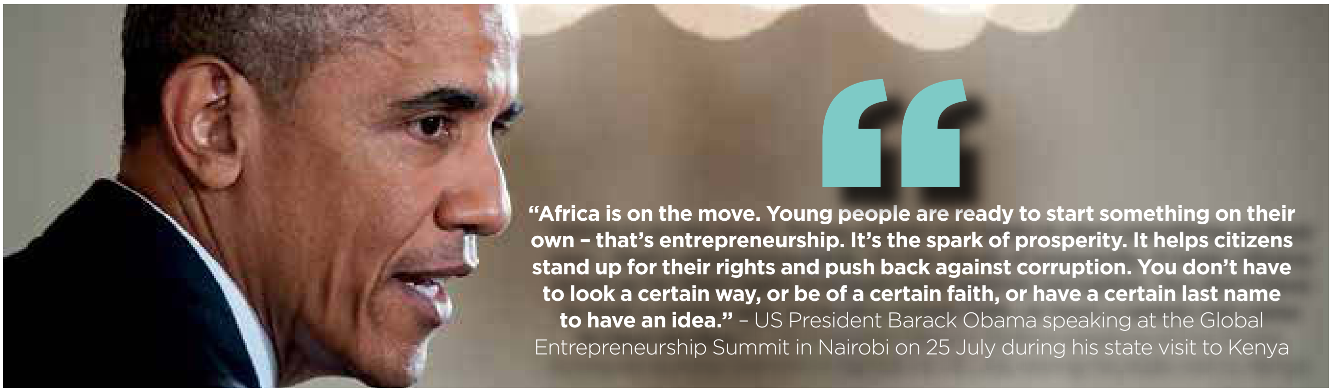
$1.3BN

First the *Financial Times*, now *The Economist.* On 24 July, British company Pearson announced that it was selling its pink-paged business newspaper, *Financial Times*, to the Japanese media group Nikkei for $1.3bn (R16.3bn). A few days later it confirmed that it was also looking at selling its 50% stake in weekly newspaper *The Economist* in order to focus on its education business, according to Reuters. Pearson is the world's largest education company, with 40 000 employees in more than 70 countries. It also owns a 47% stake in book publisher Penguin Random House.

SAFETY FINES

$105M

US regulators fined automaker Fiat Chrysler a record $105m (R1.3bn) for failing to complete 23 safety recalls covering more than 11m vehicles, nytimes.com reported. Fiat Chrysler will have to buy back up to 500 000 vehicles with faulty suspensions that can cause drivers to lose control, while owners of more than 1m Jeeps with rear-mounted fuel tanks that are prone to catching alight will be given the opportunity to trade in their vehicles at above market value, it reported. The previous record was $70m (R879.6m) imposed on Honda in January for faulty airbags.



Gallo/Getty Images

THE GOOD

South Africa is increasingly on the radar of major US tech companies, with Facebook opening its Africa office in Johannesburg in June and accommodation booking platform Airbnb's CEO, Brian Chesky, officially launching the service in SA on 27 July. Over the last 12 months, the number of people staying in accommodation booked though Airbnb in SA has increased by 257%. Chesky is bullish on the growth potential for Airbnb in SA – let's hope the new visa rules play along.

THE BAD

State-owned PetroSA is expected to report a loss of nearly R14.9bn for the financial year to the end of March, a record even for SA's parastatals. Admittedly, offshore gas exploration is expensive, but it is hard to fathom the lack of controls and governance structures for an institution's finances to spiral out of control to this extent. At least one thing still seems to work at PetroSA: the boardroom's revolving door.

THE UGLY

The South African economy is shedding thousands of jobs as falling commodity prices, rising costs and electricity shortages are forcing companies to shut down operations and cut staff. In the past two months, at least 10 000 job cuts have been announced by mining companies, while steel makers ArcelorMittal, which may shut its Vereeniging plant, and Evraz Highveld Steel & Vanadium, which is in business rescue, have warned of roughly 2 400 job cuts as they battle to compete with cheap Chinese imports.

Current account **deficit** hurts the Rand

BY LAMEEZ OMARJEE

The negative impact of the current account deficit on the rand is at its highest point since at least the Russian financial crisis in 1998. This is the view of Walter de Wet, head of South Africa research at Standard Bank.

If the country had a current account deficit of zero, rather than the shortfall of R189bn, the rand could have been trading closer to R10 against the US dollar, he said at a press briefing in Rosebank on 27 July. At the time of writing, the exchange rate was R12.55.

SA has been running a current account deficit – and a fairly wide deficit compared to its peers – for over a decade, said De Wet, who has studied how changes in the current account affect the exchange rate. The exchange rate has a direct impact on key input costs in the economy, such as the petrol price, and therefore inflation.

He said while the exchange rate was much more sensitive to the current account deficit in 1999, the net impact on the currency was smaller back then because SA was running a much smaller deficit. Between 2008 and 2012, the rand was most insensitive to the deficit, De Wet said.

But since the US Federal Reserve's decision to end its quantitative easing programme early in 2013, the rand has become more sensitive to the current account deficit, De Wet said.

A country's current account deficit is financed by foreign investment, largely portfolio flows in SA's case. However, this is challenging when portfolio flows are volatile, because this makes the rand volatile.

The rand has also been hurt by the decline in commodity prices, which had a negative impact on the current account. Metals and mineral commodity exports – mainly platinum group metals, gold, coal and iron ore – account for around 53% of SA's exports of physical goods, according to Standard Bank.

While the lower prices for crude oil and petroleum products in turn benefit the current account balance, the proportion of these imports to total physical goods imports (at around 20%) is much less than the proportion of commodity exports to total physical goods exports.

"A simple rule of thumb would be that for the terms of trade to remain unchanged, the fall in oil prices would have to be two-and-a-half times the fall in the prices of the commodities we export," De Wet said.

With an interest rate hike expected in the US in September, SA will be less attractive to portfolio flows, which is expected to put further pressure on the currency. "Strategically, we expect the rand to remain under pressure in the next 12 months. Tactically we expect rallies, but these are likely to fade," he said.

The deficit has come down to 4.6% of GDP in the second quarter, from 4.8% in the first quarter, but it is likely to increase to 5.8% in the third quarter and 5.5% in the fourth due to seasonal flows, De Wet said. Inflation was likely to average 4.7% this year and 5.7% in 2016, while the economy was likely to grow by 2% this year and 1.7% next year, it said.

The South African Reserve Bank (SARB), which hiked the prime lending rate 25 basis points to 9.5% on 23 July, is only expected to increase rates again by the middle of next year, according to Standard Bank Research. ■

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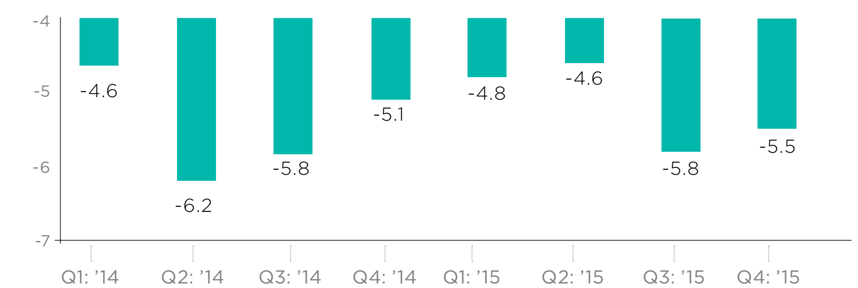
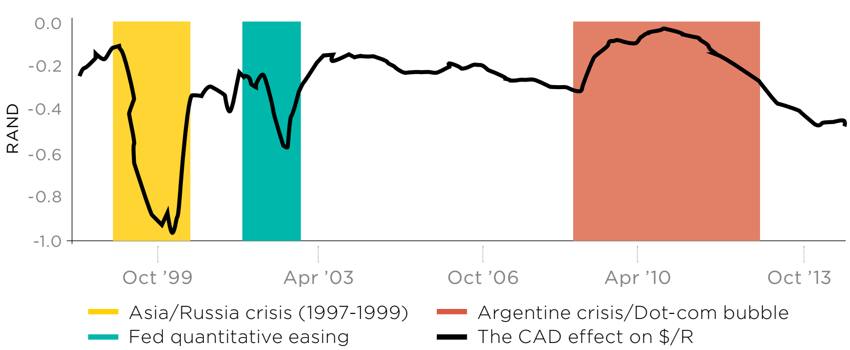
CURRENT ACCOUNT BALANCE AS A % OF GDP (FORECAST)



SOURCE: Standard Bank Research; SARB

THE SENSITIVITY OF THE $/R EXCHANGE RATE TO THE CURRENT ACCOUNT AS % OF GDP



SOURCE: Standard Bank Research

World powers talk trade

The US along with 11 other Pacific countries met during the last week of July for what has been called the final round of negotiations on the Trans-Pacific Partnership. Should negotiations succeed, a regional trade accord would have been finalised, grouping together 40% of global economic output, according to the nytimes.com.

Other countries involved include Japan, Canada, Australia and New Zealand. At the time of writing, negotiators aimed to finalise discussions by 31 July. However, commentators told nytimes.com that this was unlikely to be the case.

According to Reuters, issues still to be finalised included a push from the US, New Zealand and Australia to convince Canada to open up its protected dairy market. Meanwhile Australia was hoping to gain increased access to the US sugar market.

The US, on the other hand, wants the other partners to agree to protect intellectual property rights on next-generation biological drugs, Reuters reported.

Experts warn of killer robots

More than 1 000 technology experts, scientists and researchers have written a letter warning about the dangers of autonomous weapons, or so-called “killer robots”, bbc.com reported. Signatories include world-renowned scientist Stephen Hawking, billionaire businessman Elon Musk and Apple co-founder Steve Wozniak.

The letter, which was presented to an international conference on artificial intelligence (AI) in Buenos Aires on 27 July, called for a ban on the use of AI to manage weapons that would be “beyond meaningful human control”, it said. The United Nations is currently considering the potential for a ban on certain types of autonomous weapons.

“If any major military power pushes ahead with AI weapon development, a global arms race is virtually inevitable, and the endpoint of this technological trajectory is obvious: autonomous weapons will become the Kalashnikovs of tomorrow,” the letter from the Future of Life Institute warns.

TRUMP’S FORTUNE

$2.9BN

This is the estimated wealth (R36.5bn) of businessman and US presidential contender Donald Trump, according to the Bloomberg Billionaires Index. Trump has said he is worth more than $10bn (R125.8bn). The majority of his wealth is tied up in real estate, which includes the Trump Tower in New York and golf courses in Scotland and Ireland.

DISNEY DISCRIMINATES

€1 101

The price difference between what Germans are charged for a premium package to visit Disneyland Paris – €2 447 or around R34 000 – compared to what French visitors pay – €1 346 (R18 740). The resort is under investigation by the European Commission for overcharging visitors from other countries in the EU, guardian.com reported.

LETTER FROM NIGERIA.

US-Nigeria talks: Spring of hope or winter of despair?

There was an awful lot for the two presidents, Muhammadu Buhari and Barack Obama, to discuss last week when the Nigerian head of state visited Washington DC.

From democracy to terrorism, crude oil to gay marriage, the two heads of state had many topics on the roster, not all of them complementary or – particularly in the case of gay marriage – areas of agreement.

Nigerian views on the trip and its results have varied widely. Yes, it's a point of pride that Buhari should visit Washington and the leader of the world's biggest economy, so soon after his election, but then Goodluck Jonathan also visited DC and look how that turned out.

Some Nigerians wanted Buhari to encourage Obama to give more help tackling Boko Haram; others wanted confirmation that the US would be supplying more arms, as well as more money.

Then there were those who wanted Buhari to take on many Nigerians' biggest complaint of all – visas. Could the Nigerian president convince the American president to soften the immigration stance on Nigeria and perhaps exercise a freer hand with the green cards?

When the statement came from the two leaders, it was, as you might expect, rather anodyne and not replete with hard news, but it was clear the two men were thinking one thing along the same lines: security, security, security.

Interestingly, Obama stressed Buhari's "very clear agenda" on tackling both Nigeria's security challenges and its horrendous record for corruption. These aren't agendas Nigerians have yet seen from their slow-moving leader, much less that they consider evident. It's true to say Buhari has a very clear mandate, but the suggestion of an agenda is a suggestion of a plan. The suggestion of a plan is a hint that there may be more cooperation to come between the US and Nigeria.

It would be a stretch given all we (don't) know about Buhari's plans to suggest he's been waiting for the Washington trip before returning home and announcing complete and considered military proposals. But with the state of the oil price and the country's coffers, help from the US would be welcome, especially after the period when diplomatic cooperation between the two countries had cooled significantly.

Buhari called the US out on this last week, saying America had aided and abetted the insurgents in recent times in its refusal to sell arms to Nigeria. The US attributed that decision to the Nigerian army's questionable human rights record.

Last month America gave Nigeria \$5m (R63m) to fight Boko Haram in a sign of improving relations. But relative to the scale of the problem, the reconstruction efforts necessary in the stricken northeast and the insurgents' recent alliance with Islamic State, this is the clichéd drop in the ocean.

Nigeria needs more funds, more training and more equipment if it is to defeat Boko Haram, and that's not cash swilling around at home. The country waits with interest to see the fruits of the very clear agenda, and the US's part in it. ■

editorial@finweek.co.za

SAUL LOEB/AFP

Nigerian president Muhammadu Buhari shakes hands with US president Barack Obama during a meeting in the Oval Office of the White House in Washington, DC on 20 July.

OBAMA IN ETHIOPIA

Picture: Jonathan Ernst, Reuters

US PRESIDENT BARACK Obama tours the Faffa Food factory in the Ethiopian capital Addis Ababa on 28 July. Ethiopia is one of the fastest-growing economies on the continent, with an official GDP growth rate of above 10%. It has seen major investment from China in recent years, notably in transport, energy, technology, real estate and agriculture, according to statistics from the Heritage Foundation. Total Chinese investment has reached nearly $17bn (R213.4bn), it said. Obama's visit to the continent's second-most populous country was the first in history by a US president. The US sees Ethiopia as a key ally in the fight against Islamist group Al-Shabaab.

LUXURY SELLS

15%

The increase in first-half profit reported by luxury group LVMH, whose brands include Louis Vuitton and Moët & Chandon, the strongest earnings growth in three years, according to Bloomberg. The group recorded strong sales in Europe and the US, while it has been under pressure in China, Hong Kong and Macau, the company said.

FIGHTING CLIMATE CHANGE

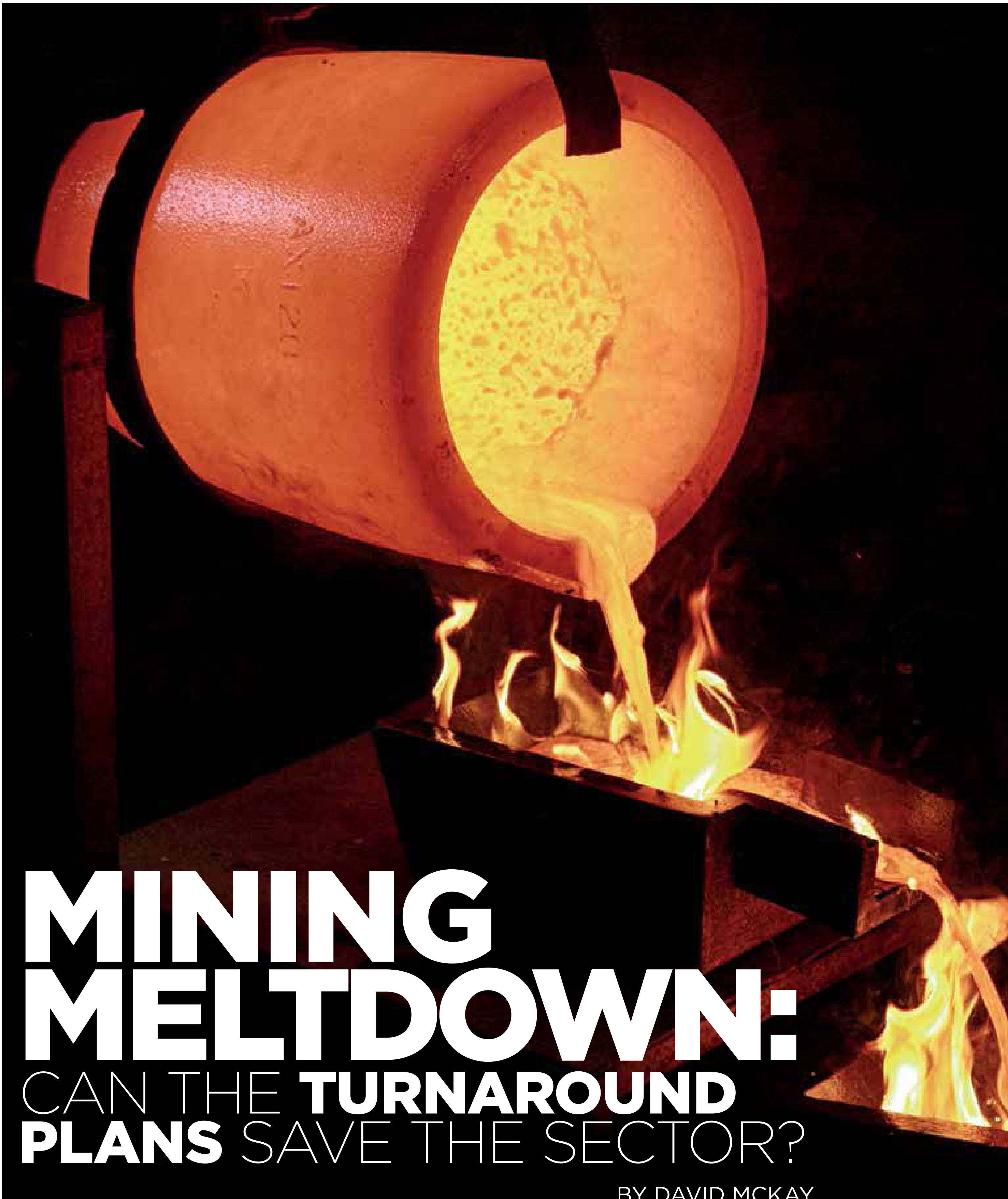
$140BN

The amount of money (R1.8tr) 17 US companies will invest to reduce their carbon footprints ahead of global climate change negotiations in Paris in December, the *International Business Times* reported. The companies include Apple, Google, Microsoft, Berkshire Hathaway and Goldman Sachs. At the time of writing, the US Environmental Protection Agency was expected to announce final regulations by the end of July that would force US power plants to cut emissions by 30% from 2005 levels by 2030.

BARCLAYS AFRICA TURNAROUND

13%

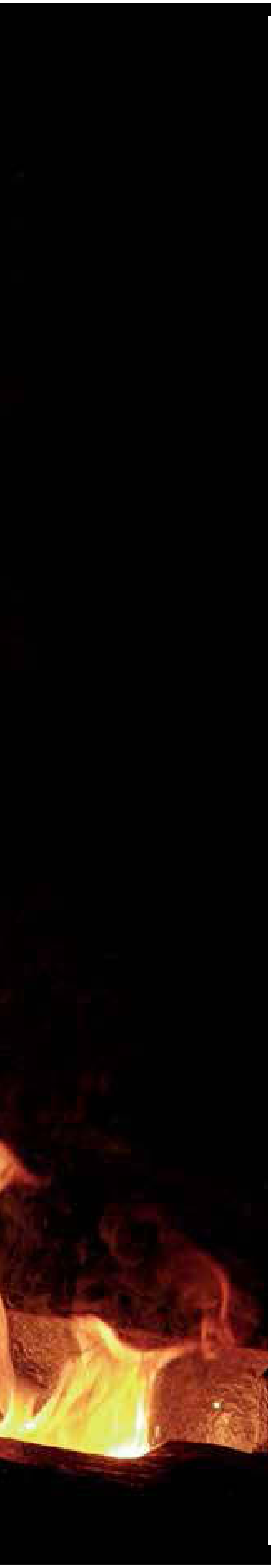
Barclays Africa, which is midway through its three-year growth strategy, has announced an interim dividend of R4.50 a share, a year-on-year increase of 13%. Diluted headline earnings per share for the six months to end June grew 11%, it said. Its star performers have been its home-loan division, where it grew customer numbers, and business banking, where non-interest income increased by 14%.



MINING MELTDOWN: CAN THE TURNAROUND PLANS SAVE THE SECTOR?

BY DAVID MCKAY

Gallo Images/iStock



MINING COMPANIES HAVE ANNOUNCED **BILLION-DOLLAR WRITE-DOWNS, MINE CLOSURES AND THOUSANDS OF JOB CUTS** – BUT THE CONTINUING DECLINE IN METAL PRICES MEANS THE SECTOR, THE WORLD'S WORST PERFORMER SINCE 2011, REMAINS AN "INDUSTRY IN REVERSE". *FINWEEK* UNPACKS THE REASONS BEHIND THE "BLOODBATH" AND FACTORS THAT COULD RESULT IN A TURNAROUND.

You can see what former Anglo American CEO Tony Trahar intended when he installed the South African company in the sumptuous district of London's St James shortly after its UK listing in 1999.

Situated in a neighbourhood designed by Regency architect John Nash, Anglo's head office at 20 Carlton Terrace is a declaration that the far-flung mining house could comfortably stand its ground with the city's blue bloods: Rio Tinto and BHP Billiton.

It didn't seem to matter that the likes of Rio Tinto would put its elegant St James Square offices in Mayfair up for sale or that BHP Billiton decided to take up premises a stone's throw from the A202, conveniently adjacent to the discount utility chain Argos.

In bold contrast, Carlton Terrace has a view of St James's Park, an advantage it shares with Buckingham Palace, while Anglo's neighbours at Number 18 made headlines in 2013 when they sold the property for £250m, making it the country's most expensive residence.

Of course, at the time of Anglo's arrival in the UK, the mining market was on the cusp of a breathtakingly spectacular bull market driven by Chinese economic growth, a movement that economists likened to the industrial re-awakening of Germany in the 1950s, only bigger. It was a far cry from the straitened times of today.

For instance, BHP Billiton was able to take its place as a sponsor of the Beijing Olympics in 2008, an event described as China's coming-out party, while miners fell over themselves supplying millions of China's newly moneyed middle class with fridges, hair dryers and washing machines and Beijing invested in the railways, ports and roads through which its minerals for manufacture were delivered.

Sponsoring the Beijing Olympics was a strenuous marketing of ambition that's quite unthinkable today as China's economic growth slows, transforming the mining sector's supernova into a black hole in less than three years.

It's against this background that Mark Cutifani, Anglo American CEO, was left to impart a message all of his own. "We are looking for a residence that is more appropriate and cost effective," he said, announcing a hefty downsizing of Anglo's London offices. "St James's is a very expensive place to stay for a mining company."

AN INDUSTRY IN REVERSE

It's only a head office move – the type that companies do all the time – but it's also a metaphor for an industry in reverse. Whereas Cutifani's decision to sell Anglo's corporate jet two years ago could be interpreted as showmanship, a dart at Anglo's upper-crust culture by its newly appointed Australian iconoclast, the office relocation seems tinged by survival.

There's also the shocking reality that Anglo will need less office space after it unleashed a brutal $500m cost-cutting drive, of which $300m would be derived through the cutting of 6 000 jobs, equal to 46% of the organisation's total support head count.

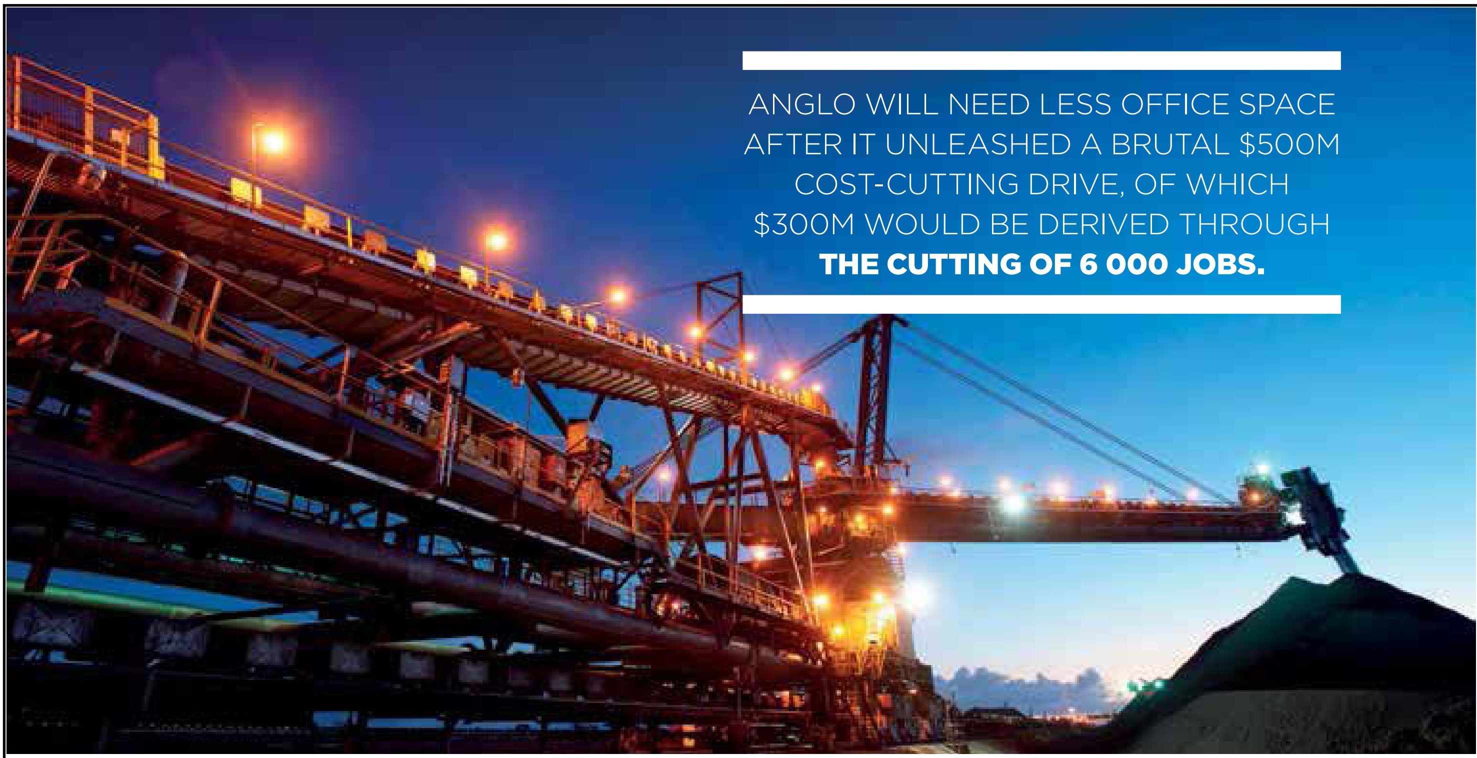
All in all, the group's interim results last week came with both good and bad news. The interim dividend was, surprisingly, maintained, and net debt was cut significantly to $11.9bn, but there was also a $4bn write-down of Anglo's coal and iron ore assets – a common theme running through the sector that few companies have been able to escape.

BHP Billiton announced a $3bn write-down of its onshore assets on 3 July – a move determined by the continued decline in metal prices in a year analysts thought would represent the "bottoming-out" of the mining slump.

Instead of the bottoming out, there's been an acceleration in metal and share price liquidations. For Anglo, every mineral or metal it produced was lower in the first six months of this year, and some, such as nickel, were off by some margin (20%), while metallurgical coal and iron ore were both 14% lower; copper was 10% weaker, and platinum was 11% lower year-on-year.

CHINA'S EVOLUTION

Market conditions like these are virtually unplayable. Analysts clearly point the finger at China as it transforms from an investment-led economy to one driven by consumerism.



The meaning of this transformation can be explained by turning the clock back to 2002 when China embarked on a programme of centralised investment. Normally, economies are built on higher GDP growth per capita, which leads to a larger tax take that, in turn, allows government the spending power on things such as infrastructure, water provision, sewerage and road construction.

In China, however, this process was slightly different in that it centralised resources in Beijing, allowing it to build out infrastructure at a much faster rate and earlier in the GDP/capita cycle than other major economies.

The problem for mining companies – which threw themselves into massive expansion to meet this economic growth – is that the resulting post-party hangover can only be a brain atomising one. That's because China's take of major mining commodities is between 40% to 70% of the global total, but its economy is only 13% of the world's GDP.

"The commodity intensity per capita in China has surpassed many advanced economies, and we believe the outlook is for GDP to grow from consumption demand rather than investment demand," said Goldman Sachs in a recent report. It forecast a normalisation over time.

"Normalisation", however, seems hard to come by presently.

Metal price weakness has given way to volatility. Iron ore lost 25% in a week in mid-July, its single biggest price swing ever. It regained some of the ground, but it was enough to justify Kumba Iron Ore's decision to suspend its dividend.

That was bad news for Exxaro Resources, predominantly a coal producer but with a 19% stake in Kumba, that handily yielded dividend flow worth billions of rand in previous years.

Now, however, Exxaro has spoken of how this could mean failing to produce dividends of its own, or worse: an inability to meet its bank covenants. Its flagship empowerment structure, held in Main Street 333, has asked it for a R400m loan in order to refinance its own debt structure. Thus one company's problems cascade to another.

CHINA'S POTENTIAL

In an interview with *Finweek,* Cutifani expressed his surprise at the continued weakness in the metals market this year. "We didn't expect the rout to be this severe," he said. "I think the concerns around China are reasonably founded. Maybe this was overdue, but we probably need another six months to work it out.

"It's not a disaster," he said, adding that, "We always tend to overreact to some degree in the mining sector."

Perhaps Cutifani's view is somewhat coloured by the fact that, for others, the change in China's economy is not a catastrophe so much as it is a necessary evolution.

Over the long term, an economy driven by consumer spend is a naturally mature one.

And it's actually quite positive for the likes of Anglo American subsidiaries Anglo American Platinum (Amplats) and De Beers, its 85% diamond producer, which rely on jewellery sales for a portion of revenue. Both have long identified the rise of the Chinese middle class as an exciting new market.

"Ultimately, a consumer-led economy is very good for jewellery and for platinum," said Chris Griffith, CEO of Amplats. "That is a good outcome for platinum, but at the moment what we're seeing is a very nervous economy, certainly for iron ore and steel," he said.

"It's difficult to read too much into day-to-day developments, but right now I'd say we're in nervous territory."

Bruce Cleaver, head of strategy at De Beers, said the group wasn't "terribly worried" about the economic slow-down in China, but he nonetheless acknowledged it was a factor in the diamond market.

"China is our second-biggest market and an interesting one given its potential growth and the impact that has on diamond jewellery," he said in a telephonic interview. "There's a tremendous number of middle-class homes, and people are still getting married, bearing in mind that the Chinese only buy diamond rings for marriages, not engagements.

Mark Cutifani
Anglo American CEO

"We also are seeing more and more affluent Chinese people buying diamond jewellery outside their own country in places such as Japan and South Korea, possibly motivated by the weaker currencies there. So certainly, big commodity businesses are rethinking things, but for us, as the economy in China matures it moves more into a consumer phase," he explained.

SUPPLY GLUT

Nonetheless, investors following the mining markets have been through the wringer, this year especially. Shares in the JSE's Resource Top 10 have fallen 23% since May, representing big casualties such as Glencore, down 18% in three months, 24% in a month, while BHP Billiton is 15% weaker, and Anglo is down 17%, also since May.

According to analysts, the current vulnerabilities of mining stocks come down to the fact that in attempting to lower costs and raise production – a means of reducing unit costs, increasing margins and ultimately improving payouts to shareholders – they perpetuate poor conditions in the market.

"Are you managing the market as you claim?" asked Allan Cooke, an analyst for JP Morgan, of Amplats's Griffith, who spoke of readjusting the company's sights and raising production at the group's interim results announcement.

The group had, after all, cut labour numbers to 8 700 from 32 000 at its Rustenburg and Union section mine, but now proposes to increase output 80 000 ounces at the mines between the 2015 and 2017 financial years. "Firstly, we've already cut our production, and secondly we continue to cut production when we are producing unprofitable ounces," Griffith responded.

It's down to the self-preservation tactics of mining firms that Goldman Sachs responded in a report in July that put the skids under the mining market. It said the early gains of cost cutting Rio Tinto, Glencore and BHP Billiton undertook would have limited effect today.

"With the China super cycle fading from 2011 onwards, miners have shifted the focus on the controllable with the focus being on increasing productivity, reducing costs and cutting capex/ assets to combat falling commodity prices," the bank said.

"But we suspect most of the early actions were taken expecting the cycle to mean revert soon and prices to start trending up again. These actions have not been enough to stop declines in earnings and see miners continuing to underperform – being the worst-performing sector in 2011 through to and including 2015 year-to-date," it said.

Sometimes the cost-cutting and restructuring is just not vigorous enough.

Lonmin lost a quite staggering 56% of its value in the last 30 days, notwithstanding its decision to extend job cuts to 6 000 and close down 100 000 ounces of platinum group metal production over the next two years.

According to RMB Morgan Stanley analyst Chris Nicholson, Lonmin had bought itself time, but the restructuring was not "a sustainable solution". He estimated the firm was burning $175m a year at spot prices even after closing down production.

"We estimate that prices 15% to 20% higher than spot are required for Lonmin to achieve FCF [free cash flow] breakeven," said Nicholson, who added that this assumed capex of $130m even though Lonmin needed to spend up to $250m in order to sustain output in the medium term.

At spot commodity prices, and after reducing capex to $120m, Lonmin was likely to be marginally cash-flow negative through 2016, said Andrew Byrne, an analyst at Barclays Capital. He added that the "big picture" showed more trouble for Lonmin.

"[T]his reduced supply won't impact metal markets for around two years, and thus if larger peers Amplats

and Impala Platinum were to employ similar strategies, the market is likely to remain oversupplied over this period, exacerbating downward pricing pressure on commodity markets and profitability," said Byrne.

IS RECOVERY POSSIBLE?

For conditions to improve for mining companies in the short term, there are a number of scenarios that would have to pan out, each of them more and more improbable. One is that Chinese demand actually improves – which is unlikely in the short term.

The second and third factors are that India's economic growth steps up and that there are supply closures – both equally unlikely given the focus companies are putting on unit costs rather than deep-vein surgery. The fourth hope is that the mining sector simply "bottoms out" – and rebounds – but analysts don't think that's a possibility, at least not yet.

"It's a bloodbath out there. Prices are so low, but that makes stocks look expensive unless prices recover," said an industry source who didn't want to be named, as his comments didn't reflect company policy.

"There are lots of concerns about debt and cash flow levels, but supply cuts never seem to come. They cut costs, then they high grade [mine the assets for the best ore first] and then to the banks, but rarely is there [mine] closure," the source said. "We just have to wait for demand to eat into excess supply. That is the only way, but it takes time."

It's not all bad news. David Butler, an analyst for Barclays Capital, is convinced the news from China will improve in the second half of the year, effectively from about now.

"We [...] continue to believe that Chinese economic data and commodity consumption will improve in the second half [...] accompanied by ongoing economic recovery in Europe," he said, adding that overall the current share price weakness was "an opportunity".

There is also the fact that eventually mining companies will have to take the really bitter medicine. Said Goldman Sachs: "We believe if 2015 plays out as we expect, and mining stays near the bottom, it will likely set 2016 out to be the year of bolder moves."

Among the "bolder moves" would be more aggressive portfolio restructuring, similar to what is already happening in the gold sector, as well as cutting stickier and inherently more difficult cost areas, it said.

Merger and acquisition activity in the diversified mining sector seems to be thin on the ground, largely because it appears as if the big players still have decent access to capital. But it is coming, analysts say.

"A positive signal to look out for is the deployment of private equity capital that currently remains surprisingly subdued," said Hunter Hillcoat, an analyst for Investec Securities in London.

"We note that X2 has yet to undertake a major transaction," he said. This is the company founded by former Xstrata CEO Mick Davis, who said in 2014 that supply cuts would naturally sow the seeds for a new lift in global demand for commodities.

In the meantime, investors can expect equities to remain under pressure with the risk of further pain an omniscience. "If spot prices persist or worsen, we see ongoing dividend commitments at risk, for the majors in particular," said Hillcoat. "This may necessitate difficult decisions such as moving to close or divest assets."

Said Goldman Sachs: "Ultimately, we think the sector bottoming out combined with some capacity closures is the only way miners could again outperform peers – and we believe we are far from that point still." ■

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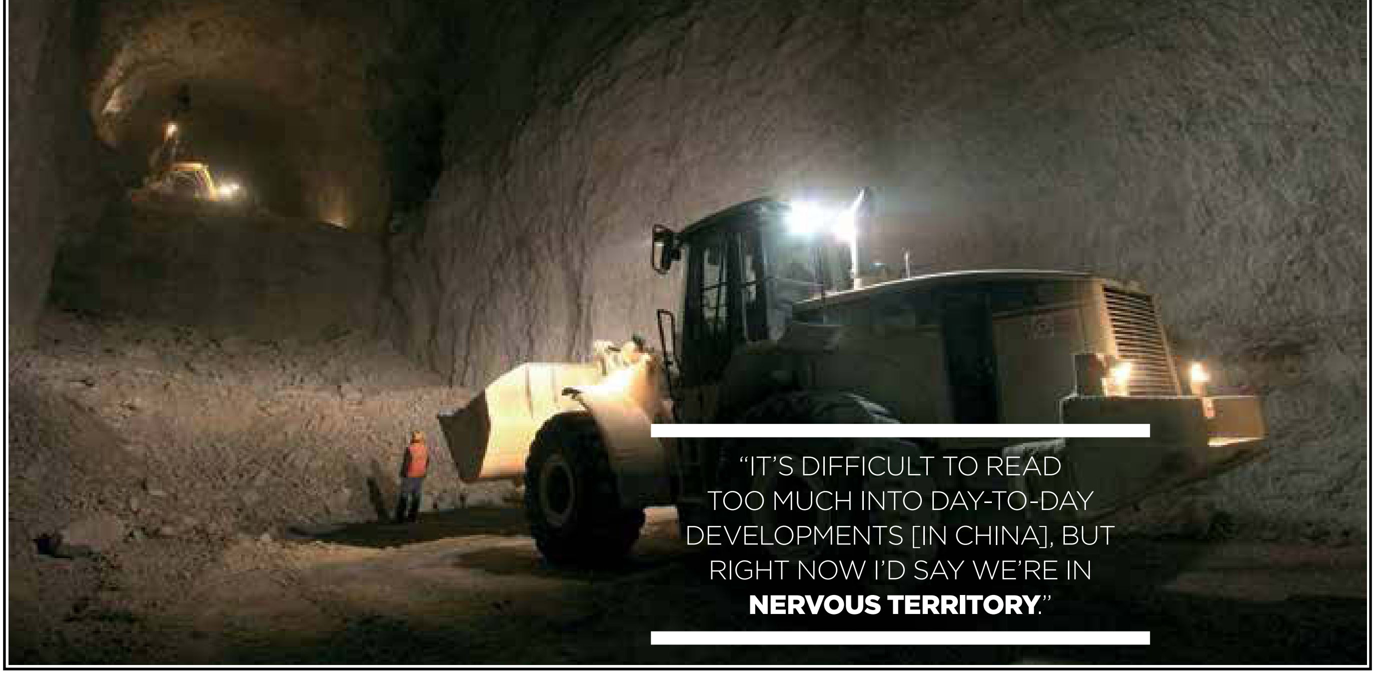
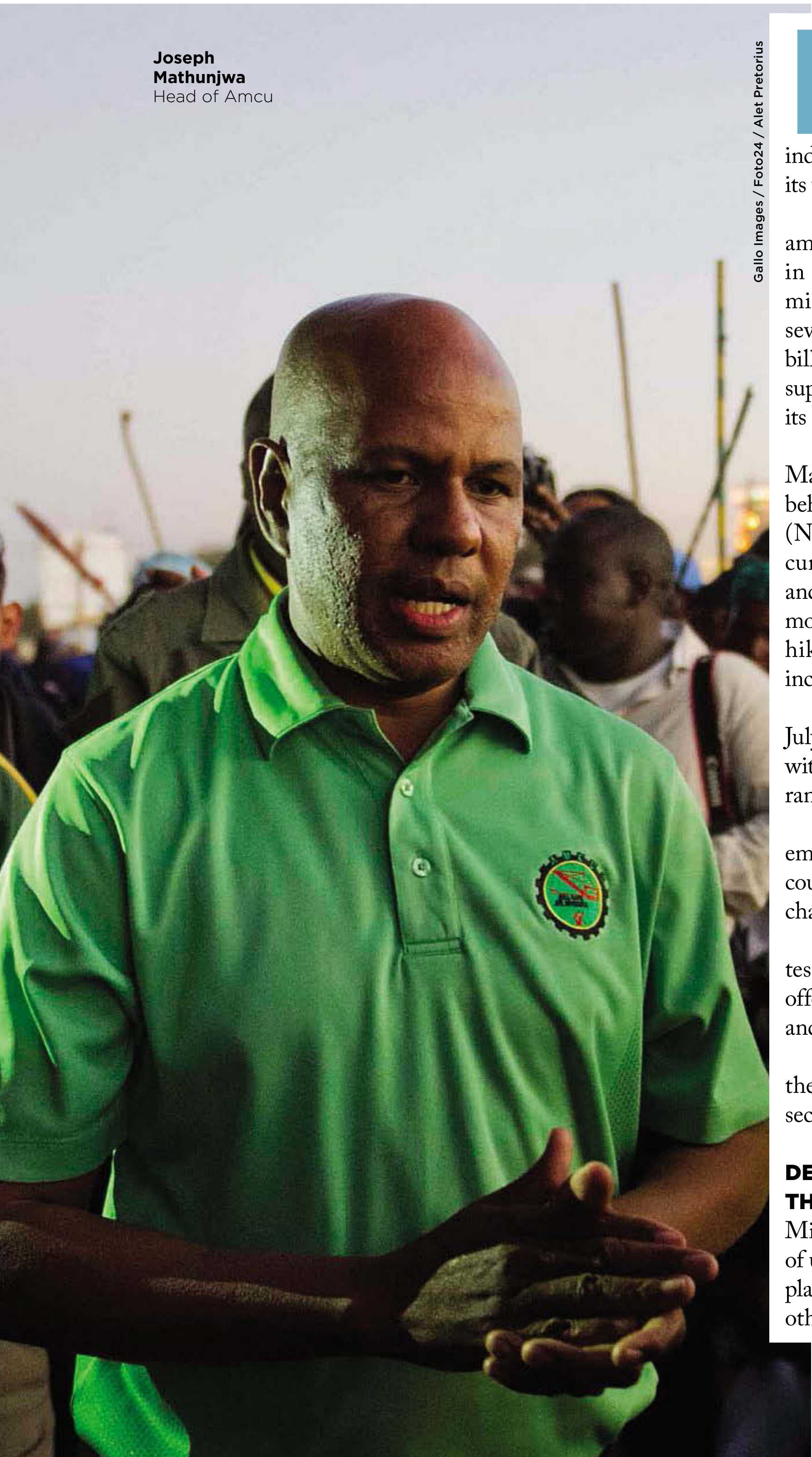


"IT'S DIFFICULT TO READ TOO MUCH INTO DAY-TO-DAY DEVELOPMENTS [IN CHINA], BUT RIGHT NOW I'D SAY WE'RE IN **NERVOUS TERRITORY**."

Suppliers panic over **possible gold sector strike**

BY ANDILE NTINGI



Joseph Mathunjwa
Head of Amcu

Gallo Images / Foto24 / Alet Pretorius

Having unleashed a five-month strike last year that brought the platinum mining sector to its knees, the Association of Mineworkers and Construction Union (Amcu) could wreak industrial action mayhem, this time on the gold sector, if its wage demands are not met.

This looming scenario has triggered extreme worry among suppliers to the gold sector. If there's a breakdown in the ongoing wage talks between unions and gold mining companies, a strike in the sector could mean a severe financial blow for these companies, which spend billions every year on procuring goods and services from suppliers. Every mining job also supports another job in its related industry, according to Chamber of Mines data.

Amcu, which is led by the charismatic Joseph Mathunjwa, has gained a strong foothold in the gold sector behind its arch-rival, the National Union of Mineworkers (Num). According to the Chamber of Mines, Amcu currently represents 30% of workers in the gold sector and Num 52%. Amcu is requesting a R12 500 minimum monthly wage for its members, representing a 100% pay hike for entry-level workers. Num demanded an 80% increase.

The gold miners were to table their final offer on 30 July. However, the two parties were not seeing eye to eye, with the latest increases offered by the chamber's members ranging between 7.8% and 13%.

Elize Strydom, the chamber's senior executive for employment relations, concedes that a protracted strike could have a "greater" impact on the gold sector's supply chain.

"The chamber's message is that all offers should be tested according to a financial model to ensure that the offers do not undermine the sustainability of the industry and that jobs are retained.

"We do not want to give wage increases that undermine the sustainability of the industry and – ultimately – job security," explains Strydom.

DEPENDENCY ON THE GOLD SECTOR

Mish Mogale – chief HR executive at Timrite, a provider of underground mining support solutions to the gold and platinum sectors – agrees with Strydom that suppliers and other businesses that rely on the gold industry for survival »

could be hard hit by a strike.

"In fact, some of these businesses have the gold industry as their only client. They either supply products or services to a specific mining company or in some cases to a specific shaft.

"If there is a strike, the company faces major hardships as the product or service cannot be diverted easily to other industries. We have seen how thousands of suppliers closed doors during the five-month platinum industry strike," Mogale says.

A strike will not only hit suppliers to the gold industry but also downstream businesses that source gold to produce jewellery, for example.

Mogale says transport companies are usually the first casualty when industrial action starts to bite.

"Needless to say, transportation companies suffer significantly during strikes. They are among the first to be stopped whenever there is a strike. They are forced to retrench employees or work short time, and the principle of 'no work, no pay' applies," he explains.

LESSONS FROM THE PLATINUM STRIKE

For well over 100 years, South Africa has been one of the world's major gold exporters, but in the last few years the local sector has seen a decline. Now gold mining in the country is termed a "sunset industry" due to a weak gold price, rising production costs and falling outputs.

Fears of a major financial disruption to the gold industry's supply chain by a protracted strike are not misplaced.

Last year's platinum strike cost the miners R23.4bn in lost earnings and workers R10.6bn in lost wages, according to industry data. Platinum firms are reported to be considering retrenching as many as 12 000 workers due to high production costs and a depressed platinum price. Mogale says the platinum strike provided valuable lessons for SA as a mining economy, chief among them that mining companies need to pay "more attention" to social and community issues.

"All parties lose whenever there is a protracted strike. Nobody emerges a winner," Mogale says.

"We lose production, sales, markets, wages, benefits and sometimes life. Participation by workers in profit-sharing seems to be the way to go."

MASSIVE POSSIBLE KNOCK-ON EFFECTS

A bird's-eye view of the industry indicates that mining companies buy a wide range of goods and services from suppliers. These include drilling services, insurance, finance, transport and logistics, mining equipment and machinery, water and electricity – all critical to mining.

"WE HAVE SEEN HOW THOUSANDS OF SUPPLIERS CLOSED DOORS DURING THE FIVE-MONTH PLATINUM INDUSTRY STRIKE."

A strike in the mining industry is guaranteed to have major economic knock-on effects.

In the period before the onset of the global economic recession in 2009, the mining industry procured roughly R199bn worth of goods and services annually, according to a mining charter review report released by the department of mineral resources in 2010.

However, a 2013 report released by the chamber puts purchasing of goods and services by the mining industry at R50bn in 2012, perhaps reflecting a slump in demand for SA's mineral resources in the aftermath of the recession.

The chamber's report also provides a glimpse into the vastness of the mining industry's supply chain and its multiplier effect on the South African economy.

The report also reveals that one direct mining job creates two jobs in other sectors as mining companies buy huge amounts of inputs, goods and services from other suppliers.

"For example, in 2012 mining bought in a huge amount of transport and storage services, which in turn created about R50bn in GDP and 80 300 jobs," according to the report.

"In essence, half of Transnet Rail Freight's bulk rail and port handling businesses are related to transporting and storing mining products.

"Similarly, the mining sector buys in catering and accommodation services (18 881 jobs), finance, insurance and business services (193 877 jobs) and electricity inputs (9 747 jobs)," the report claims.

It also points out that mineworkers are big shoppers who have a massive impact on the economy.

"In addition, given the R93.6bn provided in salaries and wages to employees, combined with the circulation of money paid to suppliers, the spending multipliers have a further significant feed-through effect into sectors such as wholesale and retail, where another 157 298 jobs are estimated to have been created as a result of mining activity," the report states. ■

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Range Rover Evoque

SUVs – on trend

BY GLENDA WILLIAMS

People carrier, status symbol, paraphernalia hauler, protection provider. The reasons for the spike in the popularity of the SUV are plentiful.

Those who thought larger cars were becoming a thing of the past didn't factor in the concept of the sports utility vehicle (SUV). While small cars are forecast to grow at a compound annual growth rate (CAGR) of 3% between 2014 and 2030, according to Euromonitor's data, that is second to the projected CAGR of 4.7% for SUVs.

The popularity of the SUV is not just a South African phenomenon. Sports utility vehicles have been the leader in the global automotive category, according to Euromonitor, with sales more than trebling between 2000 and 2014 to reach 16.4m, significantly outperforming the overall automotive market. And Euromonitor's income distribution data suggests an increasing number of consumers in emerging markets will be in a position to trade up from traditional smaller cars to SUVs, with SUV sales in 2016 surpassing today's largest vehicle segment, lower medium cars, such as the VW Golf and Toyota Corolla.

On home turf, local automotive companies are reliant on sales of light delivery and small entry-level vehicles to keep new vehicle sales ticking over. But now they are also looking to SUVs to boost their sales. Some, like Jaguar Land Rover, are almost totally reliant on sales of these cars (see table).

SUVs are as much a status symbol as they are people carriers. Looking good (read that as proving to others that one has succeeded in life) is as important as being able to transport one's family in a vehicle of sufficient size. There are, too, genuine family requirements. Lift schemes, for example, need a vehicle capable of carrying lots of children and their paraphernalia, the family dog, bicycles, prams and the like.

Let's not forget deteriorating roads, potholes and the ability to climb over kerbs or head down the beaten track, all of which the SUV is equipped to cope with, and which further adds to its popularity.

Then there is the protection the SUV affords. Because of their size and height, SUVs in general offer better protection to their occupants in a collision. And the higher centre of gravity means a perception of added security from smash and grabbers.

"There are more women driving SUVs than men," says Nicholas Nkosi, head of Vehicle and Asset Finance at Standard Bank. That, he says, boils down to safety issues. "Whether they are valid or not, there are psychological factors behind the purchase of this type of vehicle. It is higher up and affords more protection, for example, from taxis, and people are prepared to pay slightly more."

Whether their reasons are for protection, or having it as a status symbol, its off-road capability or even loading capacity, the anticipated growth in the SUV market has even enticed iconic car manufacturers like Rolls-Royce, Bentley and Maserati to the party. Their luxury SUVs – like Bentley's uber-posh SUV Bentayga, costing between R2.5m and R3.5m – will cater to the exclusive brag camps. ■

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SUVs – THE LOCAL NUMBERS

(June 2015 new car sales – passenger vehicles)

Manufacturer	SUV sales	Other passenger car sales	SUV % of passenger car sales
Jaguar Land Rover	455	44	91%
Nissan	595	190	76%
Volvo	118	98	55%
Toyota	1 869	2 989	38%
Ford	1 099	2 856	28%
BMW	444	1 587	22%
Audi	223	821	21%
VW	376	5 015	7%
AMH & AAD*	224	3 255	6%

*Associated Motor Holdings and Amalgamated Automobile Distributors

SOURCE: Lightstone Auto

Death and **taxes**

BY JININE BOTHA

Nothing is certain but death and taxes. At least that is how the saying goes. And who better to tell us what tax increases are in store for us than the chairperson of the South African Tax Commission, **Judge Dennis Davis**?

The South African tax system has changed significantly since the recommendations of the Katz Commission in 1995, shortly after the introduction of VAT, which, at the time, signalled a fundamental shift in the country's taxation landscape.

It was as a result of this that Pravin Gordhan, former finance minister, felt it was time for a review. In 2013, he announced the members of the Davis Tax Committee (DTC) that would assess our tax policy framework and its role in supporting the objectives of inclusive growth, employment, development and fiscal sustainability.

Judge Dennis Davis, who still performs his duties as a High Court judge while teaching tax law at the University of Cape Town, was appointed as the DTC chairperson.

If South Africa did not at least have a stable tax system, the country would not be in a position to conduct business as it currently does. "The question now is how to sustain this stable system and grow the tax base," Davis says.

And this is where the DTC comes in. The committee, usually in the voice of Davis at parliament, has voiced the pros and cons of raising, creating or illuminating certain taxes. Davis has been especially vocal on how corruption in the public and private sphere is narrowing the revenue that the South African Revenue Service (Sars) could collect.

"WHAT WE NEED IS MAJOR GROWTH. IT NEEDS TO BE 5% UPWARDS SO THAT WE CAN EMPLOY MORE PEOPLE, REVERSE APARTHEID TENDENCIES AND LIFT THE LOWER CLASSES."

If Sars focused on recovering money from transfer pricing abuses, says Davis, finance minister Nhlanhla Nene probably wouldn't have had to raise personal income taxes by 1% in his budget speech.

Transfer pricing refers to transactions for goods or services between related entities within multinational companies. Transfers become problematic when they are manipulated to benefit the affected company, says Davis. So-called "transfer mispricing" results in more lenient tax regimes for such countries, but erodes the SA tax base.

The cost to the economy of transfer mispricing has been cited as anything from R30bn to R200bn.

"We are not sure of the correct figure," says Davis. "But when we were investigating how to find the R17bn for this year's budget, we said if you can find R5bn or R6bn by virtue of transfer pricing abuses as an example, then you probably wouldn't have had to increase personal income tax by 1%.

"The law is good but it is not implemented effectively," he adds.

In this regard the DTC recommended to the Treasury that the special unit in Sars dedicated to base erosion and profit shifting be strengthened. The unit consists of about 20 members, including clerical staff, whereas the UK's unit has more than 200 people.

Nhlanhla Nene
Minister of finance

"It is ridiculous that we have so few people," he says.

RAISING VAT

In July, two reports were published for public comment; one on the issue of raising VAT and the other on estate duty.

In the interim report on VAT, the DTC confirms that SA has an efficient VAT system that compares well with international benchmarks.

The report notes that increasing the VAT rate would ultimately result in short-term inflation. It also states that the impact on the economy would be far less severe than that of a rise in personal income tax or corporate income tax, and would result in less distortion than an increase in these taxes.

PwC welcomed comments made in this report. "Studies carried out by the »

Dennis Davis
Head of the South African Tax Commission

6 THINGS YOU DID NOT KNOW ABOUT JUDGE DAVIS

1. Management style: "I have a lot of talented people that work at the commission. And I let them do their jobs. My job is basically to coordinate people to use their expertise."

2. Gadgets: Davis says he is the most "technologically illiterate person" you would ever meet. "I finally got the hang of emails, but for me, face-to-face communication is still the best."

3. Work/life balance: Davis says time-management can be a struggle. "The committee has put a lot of extra pressure on me, especially because I still work as a judge." However, he actively creates space to relax - either by taking holidays abroad or enjoying music or a movie with his wife.

4. Favourite pastime: Walking up the mountain in Cape Town or watching a Manchester United game. "I have been a Man U supporter since I was five."

5. Favourite film: *Citizen Kane*, featuring Orson Welles.

6. Favourite play: Arthur Miller's *Death of a Salesman*.

» OECD indicate that broadening the VAT base is the best way of increasing VAT revenues as part of a tax shifting exercise as it improves efficiency and reduces administration and compliance costs," says Charles de Wet, head of indirect tax at PwC Africa.

IDEAL TAX SYSTEMS

An ideal tax system does not impede the economy, while simultaneously avoiding extra pressure on the lower and middle classes. "But a utopian tax system can't work in South Africa for a variety of reasons," says Davis.

"I know this issue is always talked about, but South Africa inherited a skewed distribution of wealth. We are top-heavy, which makes it difficult to raise huge amounts of personal tax, because our tax base is so small."

SA has 6.6m income taxpayers and 16.4m people on social welfare.

"But you cannot test the ideal by looking solely at the tax system, one also needs to consider the redistribution side."

Compared with other countries, SA is doing well on the tax and transfer side. But there is a limit to the amount of tax and transfer that can be brought into an ideal economic mix, he says.

"What we need is major growth. We will never succeed at the current 2% growth rate. It needs to be 5% upwards so that we can employ more people, reverse apartheid tendencies and lift the lower classes. Tax on its own can't do that."

According to him, if Eskom is taken out of the mix, SA could have grown an extra 1%.

"The government is under immense pressure to close the deficit gap. If we keep running the deficits that we are, our economy will not grow. And what's going to happen? We will find ourselves running greater deficits, which will drag down our stable tax and transfer system. That will be disastrous," Davis says.

"However, the longer Eskom stays in a chaotic state, the less the economy will grow, which will influence the amount of tax that can be collected."

There is a need to keep the tax system stable, "something Sars and Treasury have done splendidly," Davis says. "But it is not just their job to keep revenues growing. If we do not get a stable energy system soon, we can forget about higher economic growth and collecting more taxes."

While the DTC provides guidance on the pros and cons of reforming certain classes of tax, determining what SA's budget needs remain up to the minister of finance and Treasury.

Going forward, Davis does not see dramatic increases, but "we will need to see how the deficit has been brought down by the time the finance minister delivers his medium term budget later this year. However, if the National Health Insurance scheme kicks in, then we will need to talk about significant increases in tax. Something that's unaffordable now." ■

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VAT AND E-COMMERCE

The regulation of electronic commerce remains a focal point for the DTC, which has made notable recommendations concerning electronic services supplied by foreign businesses to South African recipients.

SA implemented regulation on the taxation of electronic services on 1 June 2014. It was ahead of countries such as Australia and New Zealand, as well as the EU, which have only now expanded the scope of their legislation.

The DTC's interim report on VAT found that it was critical that legislation is flexible enough to keep pace with the fast-paced and ever-changing technological environment of e-commerce, an area where it notes that further work needs to be done.

Current electronic services legislation predominately seeks to tax services supplied in the business-to-consumer space, the DTC has strongly recommended that this distinction is eliminated and that all transactions (including transactions between businesses) are subject to VAT in the same manner.

"This finding is significant as the current SA VAT legislation does not seek to distinguish between B2B and B2C supplier, and it is likely that significant changes to the electronic services regulations will be required to ensure it is consistent with SA's VAT principles, and to broaden and strengthen its application as our economy modernises," says Charles de Wet, head of Indirect Tax at PwC Africa.

While Treasury has already announced moves to include software into the scope of services, the DTC interestingly notes that, in the case of online advertising, the existing regulation may not need to be amended or changed since it may be argued that the current regulation includes these activities. The DTC has recommended that a guide should be published to clarify the position.

A tale of **two Brics**

BY CIARAN RYAN

One thing Brazil and South Africa have in common is a love of football. The two countries also share negatives, however, including power outages, corruption and increasingly flaccid economic growth. The Brics alliance, consisting of Brazil, Russia, India, China and South Africa, has strengthened official ties between the two countries, but trade and investment, while growing, remains muted. This is likely to change over the next decade.

The similarities between regional powerhouses Brazil and South Africa are numerous. Let's start with soccer. Brazil's 7-1 semi-final slaughter at the hands of Germany in the 2014 World Cup – in front of a traumatised home crowd – is not easily forgotten. SA hosted the previous 2010 World Cup, but was never seriously in the running for a spot in the final.

The economic outlook is bleak for both Brazil and SA, more so for Brazil. The rising cost of meeting welfare expectations in both countries is crippling budgetary flexibility. Broadly speaking, there are two ways out of this trap: robust economic growth to feed to the tax monster or, alternatively, Margaret Thatcher-style economic reformation with all that implies: offloading state-owned enterprises, austerity, welfare cutbacks and trade liberalisation.

Neither of these is likely. As is the case with SA, Brazil's sunshine days of 4% to 5% annual economic growth are now a decade behind it. Much of this growth was fuelled by consumer spending and cargo loads of private and public debt. Servicing costs on Brazilian private debt now total more than 20% of disposable household income.

BRAZIL-SA TRADE RELATIONS

Brazil is a stunningly beautiful country, with a large middle class and an educated population. It ranks as one of the world's fastest-growing tourist destinations over the past 20 years. The number of visitors per year is likely to top 6m this year, three times the level of 1995. Rio de Janeiro, like Cape Town, is on just about everyone's bucket list as a must-see destination, and the annual carnival is arguably the world's largest outdoor party.

Brazil is the eighth-largest economy in the world, with a middle class now reckoned to account for half the population, up from just 15% in the 1980s. That's a market large enough to attract anyone's attention.

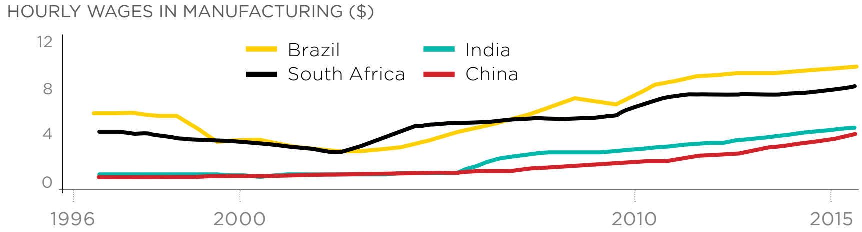
Unlike in SA, the topic of race seems to attract little attention in Brazil. As a result of centuries of miscegenation, more than half of Brazilians regard themselves as black or mixed race. The country is often seen as a model – particularly for SA – of how to deal with race issues.

Trade relations between SA and Brazil have grown, but not nearly at the

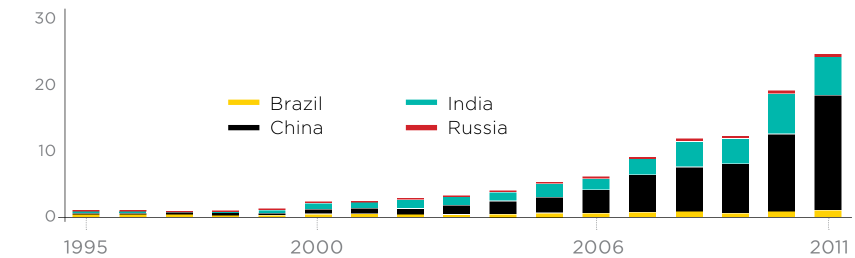
"THE MEDIA SAY THERE IS A CRISIS GOING ON HERE IN BRAZIL, THAT THE DOLLAR IS STRONG, AND PEOPLE ACTUALLY EMIGRATING. I SEE THIS AS AN OPPORTUNITY TO TAKE A SERIOUS LOOK AT BRAZIL. FOR A COUNTRY OF THIS SIZE, THERE ARE ALWAYS GREAT OPPORTUNITIES."

Victor Salinas
Entrepreneur and business consultant

COMPARISON OF **HOURLY WAGES IN MANUFACTURING,** INCLUDING FORECAST TO 2015



VALUE OF SOUTH AFRICAN EXPORTS TO OTHER BRICS COUNTRIES, 1995-2011 ($bn)



rate one might expect, given Brazil's 200m population and large middle class. The country's per capita GDP, at $11 200 (R141 530), is nearly double that of SA's, so it is a wonder that Brazil receives such little attention from South African companies compared to, say, Nigeria, which has a similar-sized population but a per capita GDP of just $3 000 (R37 900), less than half that of SA.

Language is one obvious barrier, but is routinely overstated given the robust trade between SA and Portuguese-speaking Mozambique and Angola.

Anglo American is one SA-based company with substantial interests in the Brazilian minerals sector, and there is a decent and growing export of mining equipment. Other areas of trade growth are anthracite, Cape wines (which are rapturously received in Brazil), precious metals, aluminium and car engines. The top imports to SA from Brazil include vehicles, machinery and ore.

Brazilian companies with an African or South African presence include mining conglomerate Vale, aircraft manufacturer Embraer, development bank BNDES, which opened a Johannesburg office in 2013, construction group Andrade Gutierrez, engineering firm Odebrecht and energy corporation Petrobras.

Brazil's major trading partners are China, USA, Argentina, Germany, South Korea, the Netherlands and Japan. Though Brazil and Argentina are both members of the Mercosur Latin American trading block, increased customs tariffs on a variety of goods have constricted trade between the countries, signalling a return to more protectionist habits.

SA's major trading markets are USA, Germany, Japan, China, India and Zimbabwe.

SA's accession to the Brics community in 2010 heralded a realignment of global trading patterns that would favour the faster-growing developing markets. For historical and practical reasons, trade between Brazil and SA has failed to ignite in the same way as with India and China. This is due largely to historical trading relations with the developed world that are deeply embedded in the culture of both countries. There is also a perception in SA that Brazil's key growth markets – such as telecommunications, IT, aerospace, financial services and agroprocessing – are already highly competitive and entrenched, making it difficult for new entrants. This is a dangerous assumption, since new entrants are forever disrupting the established order, according to Victor Salinas, a Sao Pãulo-based entrepreneur and business consultant.

"For a South African investor looking at Brazil, I would focus on the food industry, luxury cars, IT, »

BRAZIL VS SA IN FIGURES

1. GOVERNMENT DEBT TO GDP

Brazil	58%
South Africa	44%

2. CONSUMER CONFIDENCE

Brazil	+98
South Africa	-15

3. UNEMPLOYMENT RATE

Brazil	6.9%
South Africa	24.3%

4. CONSUMER INFLATION

Brazil	8.9%
South Africa	4.7%

5. ECONOMIC GROWTH FORECAST 2015

Brazil	-1.3%
South Africa	2%

6. INTEREST RATES (CENTRAL BANK)

Brazil	13.75%
South Africa	6%

7. EXCHANGE RATE SINCE 2011 VS US$

Brazil	-50%
South Africa	-48%

8. PER CAPITA GDP

Brazil	$11 200
South Africa	$6 617

SOURCES: Trading Economics, IMF, Reserve Bank, Stats SA, Reuters

Dilma Rousseff
President of Brazil

POWER OUTAGES AND CORRUPTION: AN ALL-TOO FAMILIAR STORY

Brazil, too, has borne its share of power outages in recent years, though mostly confined to the drought-afflicted south of the country. Like SA, Brazil is seeking to hike power tariffs by several times the inflation rate, provoking consumer outrage. Power prices are likely to rise 30% this year, more than four times the consumer inflation rate of 7%. Brazil is also facing an acute water shortage. Since three-quarters of its electricity comes from hydroelectric dams, this is sapping it of energy, according to *The Economist*.

Corruption is as much in the news in Brazil as in SA, but the latest scandal in Brazil is a whopper. It involves state-owned oil firm, Petrobras, and two dozen engineering firms, several of whose executives have been arrested and sentenced to jail terms for various offences, from money laundering to corruption. According to Reuters, executives from two dozen engineering firms are accused of inflating the value of service contracts and funnelling excess funds into their own bank accounts and to political parties, including president Dilma Rousseff's Workers' Party.

Police have also opened an investigation into former president Lula da Silva, who is accused of improper use of his overseas connections to benefit one of the engineering firms under investigation, Odebrecht SA. Ironically, da Silva is credited with Brazil's rapprochement with Africa: he made several visits to the continent, helping boost Brazil-Africa trade from $4.3bn in 2000 to $28.5bn in 2013.

Now his legacy is under review. The scandal has outraged Brazilians accustomed to low-grade corruption and political sleaze, but there are serious economic repercussions: Petrobras has put a virtual freeze on investment, and by some estimates this could knock GDP growth by 1% in the coming year.

» nutrition, consumer goods, pet-care, transportation and retailing. I wouldn't go into real estate, mining or construction for the time being," says Salinas.

"I would keep my eyes in the southern side of Brazil as an investor, though there are of course good opportunities in the other areas of the country.

"The media say there is a crisis going on here in Brazil, that the dollar is strong, and people are emigrating. I see this as an opportunity to take a serious look at Brazil. For a country of this size, there are always great opportunities."

In the minerals sector, South African and Brazilian companies compete for resources in Africa and elsewhere. The quantum of capital required to compete in this field leaves just a handful of mining majors in contention.

Where SA does have an advantage is in niche industries tucked away within IT, telecommunications, mining equipment and agroprocessing.

Last year the department of trade and industry (dti) led a delegation of 29 SA companies to Brazil, with representatives from the mining equipment, agroprocessing, cosmetics, aerospace and defence sectors. The return on this visit was a reported R1.5bn in orders.

SA's top five exports to Brazil include anthracite, precious metals, plastics, aluminium and car engines. Investment into SA "in the manufacturing sector is still very low but with growing potential", according to the dti. The trade balance is weighted in Brazil's favour.

South African export of wines and juices to Brazil has increased over the past five years. SA is now the eighth-largest supplier of wines and sixth largest supplier of juices to Brazil.

SAA offers a direct flight to São Paulo from Johannesburg and recently announced it planned to offer a code-sharing agreement with the Brazilian airline Avianca Brasil. A small step, perhaps, but 20 years from now Brazil will feature powerfully on SA's trade and investment map if for no other reason than it is a market too tantalising to ignore. ■

COLOMBIA RISES FROM THE ASHES

Colombia, at the northernmost tip of South America, wedged between Ecuador to the south and Venezuela to the east, is shedding its image as a haven for drug barons, kidnappers and guerrillas.

The crime rate is down 40% in a country once regarded as one of the most dangerous in the world. The nearly six-decade-long war between government and Farc (*Fuerzas Armadas Revolucionarias de Colombia – Ejército del Pueblo* or the Revolutionary Armed Forces of Colombia – People's Army) guerrillas is all but over, with just a few pockets of rebels holding out in rural areas. Part of the peace agreement thrashed out between the adversaries in Havana, Cuba, last year includes abolishing all illegal drug activity and land reform that will benefit the rural poor.

The peace dividend wasn't long in coming: Colombia's economy is growing at a crisp 5% to 6% annually, the fastest in the region. Tourists are pouring back into the country after decades of civil strife kept them away. The Caribbean port town of Cartagena, as old as Cape Town, and the La Candelaria district of the capital Bogotá (a breathtaking 2 600m above sea level) have come back from the dead. There was a time when it was positively dangerous to be a tourist. "In 1979, when I was there, they were arresting foreigners," stated one American tourist. "True, we were looking to get stoned, but still..."

The police and military have done a remarkable job in overhauling their reputation for brutality. Today, they are seen as guardians of the peace, with crime, murder and drug-related offences down by as much as half in a matter of a few years.

Much of the credit for the economic turnaround goes to former President Álvaro Uribe, who took office in 2002 and ratcheted up the war against drug lords and Farc rebels, making it relatively safe for foreign investment, which increased nearly eightfold to $16.6bn over the next decade.

Earlier this year *Fortune* magazine rated Colombia one of the world's seven most promising economies. In recent years Colombia has signed more than 60 free-trade agreements, and created a system of incentives for start-up businesses, something that has proven successful in Chile to the south.

Like with SA under apartheid, Colombia's industrial base was crafted to serve a largely domestic market, with little attention given to export markets. Hence commodities account for the bulk of its exports: oil and coal make up nearly half the exports, minerals another 8%, agricultural products more than 20% and industrial goods 30%.

A massive highway construction programme is underway that will boost economic growth by 0.7%, according to finance minister Mauricio Cárdenas. The government is promoting home ownership through a system of subsidies and low mortgage rates agreed with the banks, which in turn helped boost construction activity by 10% a year. It also cut payroll taxes, boosting formal sector job creation to a staggering 8% a year (with lessons aplenty for SA).

The government also brought its fiscal deficit down to 1% of GDP, restoring confidence in the country and a return of investor confidence.

Colombians have seen far worse times, and turned their back on the past. The country's model of governance and police reform are being studied across the globe. SA would do well to pay attention. ■

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Gallo Images/iStock

SA's struggling agricultural sector: What went wrong 20 years ago

BY MMATLOU KALABA
Lecturer in Agricultural Economics at the University of Pretoria

In the 1970s, South Africa was home to 2m farm workers. However, by 2014, this figure had sunk to 700 000.

Dean Hutton/Bloomberg via Getty Images

South Africa's decision to play by the global rules of free trade post 1994 put the country's agricultural sector in a difficult position. While it was expected to compete against the best in the world, the support that could have helped it was taken away.

At the same time, the countries it was competing against were very supportive of the sector – sometimes as much as three times more. This meant that new black farmers missed out on the opportunity to catch up with farmers who had been supported previously.

Beyond that, there was the problem of land reform which needed to be addressed without putting the spirit of reconciliation as well as productivity at risk.

SA has limited agricultural potential and produces at relatively high cost to attain the same unit of output as most countries in the world. It is classified as a semi-arid area, meaning its rainfall is low and erratic. The country has an average annual rainfall of less than 500mm compared with the global average of 860mm.

Only 12% of its 1.2m square kilometres is suitable for agricultural use.

POLITICAL IMPERATIVES

Although the agricultural sector had to provide food, the new democratic government also needed it to address political challenges related to rural development, social and political issues. The focus at the time was on transforming the sector to achieve these political goals rather than to prepare for global competition.

Looking at land ownership, this is understandable. More than 80% of agricultural land was owned by white commercial farmers, yet the white population made up about 13% of the country. Addressing the unequal and racially-skewed land distribution would also contribute to overcoming the socioeconomic challenges the country

faced. These included unemployment, income inequality, food insecurity, poverty and malnutrition.

Possibly the biggest of them all is unemployment, which has remained over 20% in this 20-year period. The majority of the unemployed are unskilled or have low skills and are affected by low levels of education. The agriculture and mining sectors absorb the majority.

Employment in the sector has declined substantially over time. In the 1970s agriculture used to employ over 2m people on farms alone, or about a quarter of the employed. By 2014, fewer than 700 000 were employed on farms, fewer than 5% of the employed.

TRACING THE PROBLEM

Within a year of the democratic government coming into power it had to accede to the World Trade Organization (WTO). This meant that South Africa entered into an agreement that exposed its economy to global competition and had to play by global rules, both at home and internationally.

Other agreements were signed with the EU and southern African countries. Some are still being negotiated.

The direction taken by the new government was contrary to the stance adopted by the apartheid government, which protected and supported white South African businesses. The agricultural sector was a beneficiary through various forms of support. This included direct subsidies or through institutions such as commodity boards. The boards were responsible for regulating and supporting commodities through price setting, inputs, throughput and final products.

But the support was a burden to the national fiscus. To reduce costs the new government got rid of the boards. The government would not have managed to finance 60 000 white commercial farmers only, while there were an estimated 3m smallholders who had not received support from the pre-democratic government. To balance the scales, it was more convenient to remove most of the support than to expand it.

THE CONSEQUENCES

Two decisions – accession to the WTO and deregulation – put the sector in a very difficult position. In terms of job creation the sector has performed poorly. In addition, its contribution to GDP has shrunk to less than 3% of GDP from 4.6% in 1994.

Land redistribution has also not succeeded. Only 7.5% of the land targeted for black people has been transferred.

The problem with this failure is that it has led to radical proposals that could lead to outcomes similar to those experienced in Zimbabwe.

There has also been very declining government contribution to research & development and an intensive extension service. The R&D gap has been partly filled by the private sector.

While international market access has improved and there is evidence of global competitiveness, domestic competition has become much tougher. Examples of this include the influx of poultry products, frozen potato chips and increasing wheat imports.

Hectares planted with wheat are now one third of what they were in the late 1980s. This is because it is cheaper to import wheat than to grow it. The same is true of cotton. In the early 1990s, more than 100 000ha used to be planted with cotton. Now only one tenth of that is planted because cheaper products can be imported.

SOME POSITIVE OUTCOMES

Despite the limited agricultural potential and resource scarcity, SA has managed to make substantial improvements in many areas. It remains one of the main exporters of agricultural products to the most lucrative markets in the developed world. It exports citrus, wool, avocados and nuts to the US and horticultural products, wine and tea to the EU.

SA has also found new markets. Its biggest trading partners are now in Africa, overtaking the EU, which used to dominate most facets of trade.

There has also been more diversification in terms of products such as soybeans. These are in high demand globally and investment is increasing to support production. Production has been increased with the use of fewer hectares due to technology adoption and the planting of genetically modified organisms (GMOs).

Government played an instrumental role by opening up markets, creating the environment and adjusting policies to allow the private sector to take advantage of opportunities. It also opened up market access beyond what was required by the WTO.

POLICY CONCERNS

Some of the contributors to the sector's poor performance have been policy implementation and the panic these have caused among farmers. Land reform is one policy area that will need to be designed and implemented better.

There are other government programmes that were pursued with the aim of transforming the sector, but the implementation, evaluation and monitoring thereof have been very poor. Support of smallholders and black farmers was inadequate and was without mentorship.

Technology transfer/adoption and extension services were either poor or non-existent in many areas. And some national policies are not helpful to farmers to compete in global terms because the custodians are separate government departments. Even if these issues were addressed, SA will remain a high-cost producer, which presents its own set of challenges. ■

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Mmatlou Kalaba receives funding from National Research Foundation (NRF). This article was first published by The Conversation Africa *and can be downloaded here: http://theconversation.com/south-africas-struggling-agricultural-sector-what-went-wrong-20-years-ago-45171*

THE CONVERSATION

How to **co-lead** a team

BY REBECCA NEWTON

We don't lead alone. We lead with others. The days of the "Great Man" theory of leadership – where a lone leader rules over the masses from an ivory tower – are long gone.

Some of us quite literally lead with another person – we co-lead a project, a team or an organisation with a peer. One study found that shared leadership is a useful predictor of an effective team. Other research suggests that shared leadership can also lead to greater team interaction, increased collaboration and coordination, as well as novel and more innovative solutions. But the arrangement can easily become draining and frustrating if the relationship isn't strong.

Successful co-leadership begins with commitment. When colleagues and I designed and facilitated the first collaborative training between the police forces of two localities with a decades-long history of conflict, we had the opportunity to see co-leadership in its most powerful form. By not merely "putting the past aside" but focusing on a collaborative future, the leaders from each force ensured a successful training programme that rolled out in their communities. Their joint success was not only a result of their commitment to the programme and its objectives but also their visible commitment to one another, which ended with a relationship that would go on to affect countless others.

Investing time and energy into this co-leadership relationship beyond just the scope of your role will almost certainly make it a better one. It will also mean that, not only for the organisation but also for both of you personally, two heads really can be better than one. ■

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Rebecca Newton is a business psychologist, leadership adviser and visiting fellow in the department of management at the London School of Economics and Political Science.

WHETHER WE ARE RECRUITED OR PROMOTED INTO A ROLE TO LEAD WITH SOMEONE ELSE, OR WE ACTIVELY BRING SOMEONE ON BOARD TO LEAD ALONGSIDE US, CO-LEADERSHIP IS A SKILL THAT MOST OF US NEED TO STRENGTHEN:

■ Share ownership of the goal but divide roles and responsibilities. Explore and understand each other's strengths and expertise, then go through a detailed process of agreeing who is responsible for what. Research suggests that co-leadership is much more likely to be successful with clear differentiation.

■ Remember that co-leadership affects more than just the two of you. We tend to focus on how we navigate this relationship for ourselves, but it can be equally tricky for others to navigate "us". Clients, leaders and especially the combined team can find co-leadership arrangements challenging, especially at first. Communicate your roles and responsibilities to others, and seek regular feedback.

■ Be first to reallocate praise for successes and first to pick up responsibility for failures. Whether others correctly or incorrectly assign success to you personally, praise your co-leader for any success. When failures happen, own and address them together, regardless of your direct input into the situation.

■ Be open to renegotiating your roles based on changing circumstances and ambitions. Over time, our skills grow and we want to expand our leadership capacity. So a task that may once have been unappealing to your co-leader may eventually become a stretch goal that he would like to embrace. There are endless ways in which both you and your co-leader may want to change the dynamic of your relationship. Be open to these changes in your partner, and share your own evolving goals.

■ Recognise that you yourself may have the greatest impact on your co-leader's experience of work. And that he has the same impact on yours. Honest conversations exploring the reality of this arrangement – what's great, what's challenging and what feels limiting or restrictive – may be emotional and, at times, uncomfortable. But the effort pays off.

RESEARCH SUGGESTS THAT SHARED LEADERSHIP CAN ALSO LEAD TO GREATER TEAM INTERACTION, INCREASED COLLABORATION AND COORDINATION, AS WELL AS NOVEL AND MORE INNOVATIVE SOLUTIONS.

BUY SELL HOLD ✔

ADVTECH

Take the offer

BY SIMON BROWN

SO CURRO HAS gone hostile on AdvTech, making an offer directly to shareholders after the AdvTech board rejected the initial offer. This is messy, but as I write in Invest DIY (page 33), I feel the AdvTech board should have put the offer to shareholders, even if it did so while stating that it did not feel the offer was a fair one.

The offer is 1 300c in Curro shares or cash depending on how shareholders vote. Minority shareholders could get 100% cash if larger shareholders elect to take all Curro shares. I would suggest taking half cash and half Curro shares. At this price you get Currro shares at a slight discount and sell AdvTech at what is likely a fair price. Sure, a premium would be better, but that's not on the table.

The merged entity will save over R500m a year on synergies and – let's be honest – will have the better (and more aggressive) management team in the form of the Curro leadership. Further, the now larger company will allow management to be even bolder, although it will take some time for them to bed down the merged entity. ■

Simon Brown
Last trade ideas

- HOLD **Taste Holdings**
- BUY **DBXUS**
- SELL **Anglo American Platinum**
- BUY **STXIND**

✔ BUY SELL HOLD

MEDICLINIC

Expansion bodes well for profits

BY MOXIMA GAMA

THE NEGATIVE PERCEPTION of the quality of services at public hospitals has forced growing numbers of middle-class South Africans to join medical aids in order to access private healthcare services when needed. This has made the private healthcare sector quite lucrative. Healthcare stocks are seen as defensive, as consumers are likely to continue prioritising healthcare spending even during economic downturns. Mediclinic International is South Africa's largest private hospital group and has been expanding its footprint in countries like the UK where there is growing demand for private healthcare.

Mediclinic's stock plummeted in April, correcting from its long-term bull trend, but is now showing signs of potentially recovering all its losses. The acquisition of a 29.9% shareholding in UK-based Spire Healthcare Group for £431.7m (R8.4bn) in June could have been the catalyst for the upside reversal, which could result in a 100% retracement to the all-time high at 13 460c/share. Spire Healthcare is one of the UK's largest private hospital providers, with 39 hospitals and 13 clinics across England, Wales and Scotland. Investing in Spire is a worthy step for Mediclinic in its quest to grow its business in a developed market with a strong currency. The move is also likely to increase its profits in the long term.

A good buying strategy is identified at any level above 10 800c/share, with an 8% stop loss or at key support at 9 645c/share. Investors could increase positions again at 11 755c/share, as upside could persist to the 13 460c/share all-time high. Do not go long if Mediclinic fails to trade above 10 800c/share within the next two weeks. ■

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Moxima Gama
Last trade ideas

- BUY **Growthpoint Properties**
- BUY **British American Tobacco**
- SELL **Richemont**
- SELL **Datatec**

An option for those seeking **predictable income**

BY JANA MARAIS

CORONATION BOND FUND

This fund can invest in fixed-income instruments, issues by governments, parastatals and private companies, as well as cash. As of late last year, it has also been able to invest up to 10% in foreign assets. The fund managers will only consider quality instruments of reputable institutions for inclusion in the fund – it is, for example, steering clear of bonds issued by local parastatals with balance sheet challenges, such as Eskom.

FUND INFORMATION

Benchmark:	All Bond Index
Minimum lump sum or monthly investment:	R5 000 or R500
Fund managers:	Mark le Roux and Nishan Maharaj
Total expense ratio (TER):	0.87%
Fund size:	R903.9m
Contact details:	0800 22 11 77 and clientservice@coronation.co.za

MATURITY PROFILE DETAIL (AS AT 30 JUNE)

	MATURITY PROFILE	% OF FUND
1	Over 12 years	50.8%
2	7 to 12 years	33.5%
3	3 to 7 years	9.7%
4	1 to 3 years	3.2%
5	6 to 9 months	0.1%
6	0 to 3 months	2.7%
TOTAL		**100%**

PERFORMANCE (ANNUALISED) AS AT 30 JUNE 2015

	Year to date	1 year*	3 years*	5 years*	10 years*
Bond Fund	1.3%	7.4%	7.2%	9.4%	8.6%
Benchmark	1.6%	8.2%	6.6%	9.1%	8.2%

** - Latest*

Fund manager insights

Bond fund managers spend their days thinking about macroeconomics – what is the outlook for things like inflation, growth, exchange rates, and therefore interest rates? Higher interest rates mean expectations of higher yields in the bond market, and therefore lower prices. Then they also consider credit-specific factors related to sectors, governments and companies.

Coronation Bond Fund manager Nishan Maharaj says they are predicting inflation to reach a peak of approximately 7% early next year and average just above 6% for most of the year, which is why the South African Reserve Bank increased and will continue to increase rates. On the flip side, the growth outlook is very poor and is prone to futher deterioriation, implying a very subdued rate-hiking cycle relative to history. Currently, they are seeing value in bonds with a longer maturity profile, Maharaj says.

The fund's offshore exposure is mainly in Brazilian and Mexican government bonds, which in total account for about 4% of the 10% offshore exposure, with the rest invested in US dollar-denominated debt, partly to provide a natural hedge against local duration.

Locally, it is holding senior bank debt and has some exposure to corporate debt, such as Liberty and Imperial, in addition to government bonds. "We've been staying away from state-owned enterprises that've had balance sheet problems," Maharaj says. These include Eskom, where Coronation is concerned that the balance sheet risk is not adequately priced in. Transnet is one exception, as they feel investors are fairly compensated for risk, Maharaj says.

WHY *FINWEEK* WOULD CONSIDER ADDING IT

This fund is constructed to outperform the benchmark while keeping risk levels relatively low. It's had a tough time so far this year compared to its benchmark on a monthly basis, which illustrates the importance of longer investment time frames – a minimum of one year is recommended, and Maharaj suggests three years. Adding exposure to a bond fund is a good option for investors who require relatively predictable income flows, or who are concerned that we may be heading into a bear market. ■

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Company boards and **conflict of interest**

BY SIMON BROWN


Gallo Images/iStock

The Curro/AdvTech deal (or possible deal, maybe it's a hostile takeover?) has got me thinking about boards of directors. But first I want to stress that I don't want to make this a rant against these two companies; they merely triggered the thought process.

So let's just paint the picture: board members are elected by us as shareholders at the annual general meeting (AGM) to run the business on our behalf. As such, we do not need to concern ourselves with the day-to-day running of the company we have invested in. We elect a board of directors and leave everything to them.

The board will appoint a CEO, audit committee, remuneration committee and the like as they delegate the day-to-day running of the company.

Importantly, a board will consist of executive and non-executive directors. Executive directors will work at the company while non-executives will not. This is important as the non-executive directors are outsiders in a sense, and are a more independent part of the governance and functioning of the company.

A board will also propose issues to vote on at an AGM, such as dividends to be paid, the issuing of new shares, share buybacks and other corporate issues.

If we, as shareholders (owners of the company), are not happy with the board and how they're running the company, we can vote them out at the next AGM.

But here's my issue. What happens when a board makes an important decision that its members may be conflicted with? The first issue is remuneration. Shareholders vote on the board's remuneration at the AGM, but this is a non-binding vote. In other words, even if 100% of shareholders vote against the remuneration, the board members can ignore the vote and pay themselves anyway.

SOMETIMES THE BOARD MEMBERS ELECT NOT TO PUT THE TAKEOVER PROPOSAL TO SHAREHOLDERS AS THEY DO NOT CONSIDER IT A FAIR OFFER. BUT SHOULDN'T WE GET TO DECIDE THAT?

The second issue is takeovers. A third party comes along and makes a proposal to the board to buy out the company. This has an impact on the directors: their jobs may not survive the takeover, so surely there is a conflict of interest there.

Sometimes (remember the deal between Adcock Ingram and Bidvest and the one between Protech and Eqstra?) the board members elect not to put the takeover proposal to shareholders as they do not consider it a fair offer. But shouldn't we get to decide that? After all, it is our company and this is an incredibly important decision.

Importantly, the board is not legally required to put a proposed takeover to shareholders if it does not consider it a fair offer. But we should change it so the board is legally required to put any firm, unconditional offer to shareholders? Here I am only referring to firm solid offers, not vague talks about maybe making a firm offer. But simply any firm offer to buy out the listed company should always be put to a shareholder vote.

Now, I understand that this is a lengthy process that incurs costs. But that's not the issue. The issue is shareholders being able to decide if they want to sell their stake to the proposed buyer or not. This is just good corporate governance.

The counter argument is to either trust the board or fire them at the next AGM. But firing the board doesn't help me sell to the possible buyer who may be long gone by the time the next AGM rolls around. ■

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Strong diversification keeps **AECI** afloat

CATCH
MOXIMA GAMA
ON *FINWEEK: MONEY MATTERS*
ON CNBC AFRICA
EVERY FRIDAY
AT 1PM.

BY MOXIMA GAMA

With the mining sector currently in decline as a result of plummeting commodity prices and rising costs, AECI's share price has lost steam. Originally registered as African Explosives and Industries (AE&I) in 1924, AECI products and services include providing blasting explosives and detonators to the mining industry.

AECI also operates in speciality fibres, speciality chemicals and property. This diversification has helped its performance, with the bulk sale of property assets in Somerset West contributing R2.30 to its headline earnings per share of R5.65 for the six months to end June, reflecting a year-on-year increase of 45%.

Revenue grew 8% to R8.6bn, with operations outside South Africa contributing 36%. Its mining solutions, which include explosives and mining chemicals, contributed 59% of revenue. The group reported an improvement in volumes mined in the platinum sector, although it is not yet back to 2013 levels, AECI said.

Coal and iron ore volumes have been hardest hit by the collapse in commodity prices, and gold mining volumes in West Africa remain under pressure. However, mining activity in Central Africa and gold mining in Egypt have improved, it said.

THE COMPANY'S AIM IS TO ACCOMMODATE GROWING PRESSURE TO PRODUCE MORE FOOD ON THE CONTINENT

Activity in SA's manufacturing sector also remains subdued, while energy constraints is a major concern. There has also been no improvement in exports, despite the weak rand, AECI said.

The group, which has made several acquisitions in recent years, will continue to look for opportunities on the continent.

It has bought Farmers Organisation Limited, a Malawian company distributing agrochemicals, seeds and spraying equipment on behalf of multinational producers, for $11m. The acquisition is part of its strategy to increase its agrochemicals business in Africa through Nulandis, an agrochemicals solution provider. The company's aim is to accommodate the growing pressure to produce more food on the continent.

AECI also bought 100% of Southern Canned Products to increase its food additives and ingredients business in SA and, ultimately, the rest of Africa.

Its expansion programmes will be key to reduce its reliance on the mining industry. But despite its strong interim results, the current downward consolidation on the weekly chart suggests sentiment is somewhat adverse.

POSSIBLE SCENARIO: AECI could be topping out – it is currently trading sideways between 13 710c/share and 10 290c/share. The lower tops are indicative of strained investor confidence. Downside below 10 290c/share would trigger a sell position, and if the dashed trendline fails to hold, AECI could correct to the downside target at 6 870c/share in the short term (one to six months).

ALTERNATIVE SCENARIO: This bearish consolidation would only end above 13 710c/share, and AECI would form new highs. ■

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AECI LIMITED (WEEKLY CHART)

SOURCE: MetaStock Pro (Reuters)

52-week range:	R100.50 - R137.06
1-year total return:	-9.54%
Current P/E ratio:	10.12
Market capitalisation:	R13.2bn
Earnings per share:	R10.17
Dividend yield:	3.4%
Average volume over 30 days:	198 806

SOURCE: Bloomberg.com

Simon's stock **tips**

BY SIMON BROWN

LOOK ELSEWHERE FOR DIVIDENDS

Lots of bad news is coming out of resource stocks as they publish results and production updates. The one that struck me was Kumba Iron Ore's announcement that it had cancelled its interim dividend. Many people used to hold Kumba for that dividend, and now it is gone. Dividends are only great as long as there is certainty they are secure going forward, and in mining, dividends are never secure. Miners can boom – Kumba is not the only example. The platinum miners also did in the lead up to the 2008 crisis when they kept paying large special dividends. But the next dividend cut is pretty much always assured in single-commodity producers and, as such, they remain trading stocks rather than the long-term buy and hold ones. Diversified miners are slightly different – and Anglo American and BHP Billiton* have held on to their dividends. But in these cases we're seeing a flat dividend (Anglo) or a modest increase (BHP Billiton). And as we saw in 2009 with Anglo, if things get really tough, even the diversified miners can cut a dividend to zero. The bottom line is that secure dividends are to be found elsewhere.

Gallo Images/iStock

In mining, dividends are never a sure thing.

COMMODITIES STILL NOT FOR ME

We've seen the two platinum exchange-traded funds (ETFs) from Absa and Standard Bank, as well as the Standard Bank palladium ETF, all issuing new units at a rapid rate over the past few weeks. In other words, people are buying as the commodity price is falling. I have exited my platinum ETF and can't see the attraction here, although the rand is saving things to a degree – the currency's weakness is helping to hold up the ETFs while the underlying metal price is falling. I still believe things will remain very tough in this space and can't see any serious trigger that would push the metal prices higher any time soon.

SPLIT CONTINUES

Iliad Africa has announced that Steinhoff was making an offer to buy out the company at R10 a share. This continues the trend that has seen Steinhoff focusing on the local consumer with JD Group and Kap. This process will, I think, result in Steinhoff splitting into two, one as a European business and one a South African business. Both would be consumer focused but in two different markets. I can't see European investors being excited to buy the company if it still holds a chunk of SA assets.

DIAMONDS IN THE ROUGH

In an economy where things are tough, seriously tough, we're still seeing some stocks doing very well. AdaptIT is one of those, with its trading update showing expected HEPS growth of between 29.7% and 39.7%. There are always gems in any market and under any market conditions; we just have to find them.

ADAPTIT IS ONE OF THOSE, WITH ITS TRADING UPDATE SHOWING EXPECTED HEPS **GROWTH** OF BETWEEN **29.7%** AND **39.7%.**

DATA IS THE FUTURE

The Vodacom update shows that while traditional voice revenue is under pressure, data continues to grow, and it now makes up almost a third of services revenue. This trend is likely to continue as more people get smartphones and – more importantly – as people with smartphones use more and more data. Ultimately we will hit a data ceiling, but I think that is a very long way off. Using my personal experience, I was an early adopter of mobile data (back when it cost R2 000 per gigabyte) but my usage just keeps on rising. In the past year alone, my monthly data consumption has increased fourfold. So ignore voice revenue and mobile termination complaints – the future of mobile companies is data and it's going to be massive. ■

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**The writer owns shares in BHP Billiton.*

There's **loads of money** in everyday consumer goods

BY DUGGAN MATTHEWS
Investment Professional at Marriott Asset Management

Expensive markets and an economic growth outlook of approximately 2% in South Africa suggest investors may be disappointed with returns from local equities in the years ahead. Given this outlook, Marriott is encouraging investors to take advantage of attractive yields on offer from First World mega-cap stocks. One of these companies is Unilever – a giant in the household staples industry.

The biggest driver of capital growth is dividend growth, so more predictable dividend growth means more predictable capital growth. Unilever's dividend track record has been consistent and reliable over many years, as can be seen in the chart below.

Marriott invests in companies that tend to share five characteristics, all of which ensure predictable dividend and capital growth: 1) they fulfil a basic need; 2) they own strong brands; 3) they have pricing power; 4) their markets are growing; and 5) they have diversification. Unilever ticks all these boxes.

FULFILLING A BASIC NEED

Unilever offers a broad range of basic consumer necessities including food, beverages, personal and home-care products that are used by about 2bn customers around the world daily. Because of this, the future dividend prospects of Unilever are unlikely to be materially affected by any change in economic conditions, technology or trends. And this makes dividend growth from the company more predictable.

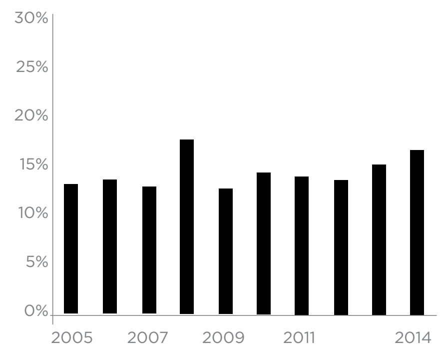
OFFERING STRONG BRANDS

The customer loyalty created by Unilever's strong brands keeps competitors at bay and ensures a consistent demand for the company's products. Lipton, for example, is the world's best-selling tea brand. Lux is the world's most popular soap.

PRICING POWER

Unilever's brand dominance in consumers' day-to-day activities allows the company to pass rising input costs on to consumers without sacrificing turnover and margins. This is evident in Unilever's operating profit margin over the past 10 years, as shown on the right.

OPERATING MARGIN



SOURCE: Unilever

GROWING MARKETS

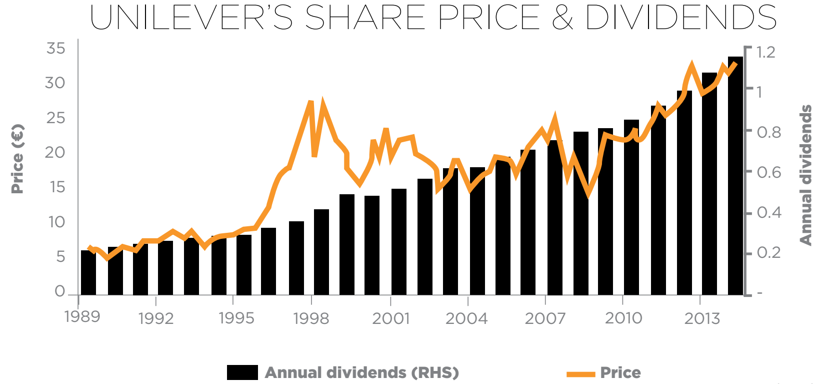
Driven by economic growth in emerging markets, almost a quarter of a million people join the middle class every day. About 57% of Unilever's revenue comes from these markets and this is favourable for dividend growth. Unilever's Lux and Lifebuoy brands, for example, are listed in the top 10 consumer brands in India, one of the fastest-growing economies in the world.

DIVERSIFICATION

Well-diversified companies provide more predictable dividend and capital growth as their success is not tied to the fortunes of one particular economy or dependent on the success of one particular product. Unilever certainly has diversification – the company has more than 400 consumer brands, which are sold in 190 countries around the world.

So Unilever ticks all the boxes for producing predictable dividend and capital growth over the long term. And its current dividend yield of 3% is an acceptable entry point for new investors. These are the reasons Marriott believes Unilever should form a core holding in an investor's portfolio. ■

UNILEVER'S SHARE PRICE & DIVIDENDS



SOURCE: Bloomberg

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Is **gold** still a safe haven?

BY SCHALK LOUW
Portfolio Manager at PSG Wealth

It hasn't been a good month for gold bulls after the gold price decreased by 6.4% in US dollars, and the JSE Gold Index dropped 17% for the month to 20 July. The reality is this isn't a new trend. Rather it's a continuing one since gold had its all-time high in September 2011. Since then, the index is 42% lower in US dollar, and 68% lower in rand terms.

There is nothing special about gold as a commodity. And there is most certainly no reason this commodity should be less volatile than any other – like platinum, copper or silver. Commodities are and always will be high-risk investments, so don't let anyone convince you that gold is a "safe haven" in your investment portfolio.

That said, gold (along with other commodities) has one attraction for a long-term, goal-orientated portfolio: it is a tangible asset. Such an asset can be very useful, as it provides a good hedge against inflation.

If you had been invested in gold for the past 40 years, your returns would have come to 13% a year. This is an attractive percentage when compared with local inflation, which grew by 10% a year over the same period. Of course, there were times when gold strongly underperformed inflation. But over the long term, it remained an attractive investment.

I'm just not convinced that the underlying mines offer the same attraction. If you had invested R100 in the gold price – by using something like Krugerrands – 10 years ago (at the end of June 2005), your R100, after the past four tough years, would be worth only R470 today. But had you invested the same amount in the local Gold Index, your investment, excluding dividends, would be worth a shocking R49!

For those who now feel discouraged because of the fact that it is so difficult to buy this physical commodity, there is some good news. During the past few years, both Standard Bank and Investec have listed gold (and other commodities) exchange-traded notes (ETNs) on the JSE. For those looking for exposure only on the movements in the physical gold price in US dollars, the Investec ETN may be considered, while the Standard Bank ETN offers you these movements in rand value.

THERE IS NOTHING SPECIAL ABOUT GOLD AS A COMMODITY, AND THERE MOST CERTAINLY IS NO REASON WHY THIS COMMODITY SHOULD BE LESS VOLATILE THAN ANY OTHER COMMODITY SUCH AS PLATINUM, COPPER OR SILVER.

There are a few fund managers who have a strong preference for gold. According to my latest data, the Investec Value Fund stands out as the equity fund in South Africa (excluding specialist resources funds) with the highest exposure to direct gold mines – more than 23% of the fund is currently allocated to local gold mines. The Momentum Value, Element Earth Equity and Stanlib Value funds follow closely, with their very high exposure to gold mining. People who feel gold mines are ready for recovery can consider these funds.

For others, like me, who feel the risks associated with investing in mines are just too high, these funds should be avoided at all costs.

It doesn't matter which way you look at it, gold will put a sparkle in many an investor's eyes. But beware – neither it, nor other commodities, are safe investments in your portfolio. ■

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Retirement savings: What you need to know

BY JUSTINE OLIVIER

Saving for retirement is one of the most important things you can do throughout your life. Unfortunately, many leave this critical financial objective for the last minute, scrambling to ensure they have enough funds to retire comfortably. Below, we look at some of the issues you need to keep in mind when saving for your golden years.

While you should effectively take advantage of the benefit of compound interest while retirement is still far off – compound interest is when interest earned on the money you save accrues interest itself, this essentially causing your funds to snowball – there are many other factors to be aware of when planning your retirement. It is also vital you choose the right savings vehicle to suit your needs.

Jeanette Marais, director of distribution and client service at

Allan Gray, says: "When investing for retirement, it is important to plan for future increases in prices and future increases in your standard of living.

"Price inflation is a general increase in prices and a corresponding fall in the purchasing power of your money. Salary increases that keep pace with price inflation allow you to maintain a fixed standard of living over time. However, salary increases that exceed price inflation may increase your standard of living and therefore your cost of living. You can think of this as 'lifestyle inflation', which is the increase in your standard of living over time."

She says that as you become accustomed to a certain lifestyle, you will need to increase your retirement savings to maintain this standard of living, or otherwise risk spending far beyond what your retirement savings will allow.

Another factor you need to keep in mind is market volatility – this can affect the longevity of your savings. While market volatility is to be expected – it is a normal part of investing – it is something you need to take into account and effectively combat to ensure optimal performance of your retirement vehicle.

> "THROUGH CAREFUL PLANNING AND ALLOCATING CAPITAL TO DIVERSE ASSETS, YOU CAN ACHIEVE A COMFORTABLE RETIREMENT."

"To achieve above-inflation [real] returns, you need to be comfortable taking on some risk. History has shown that over the long term, equities provide the best return. While returns do not come in a straight line, fluctuations smooth out over time. If you invest in equities, you need to be comfortable with a bumpy ride," says Marais.

Spreading your risk by investing in various sectors and industries will ensure you are adequately equipped to tackle market volatility.

Says Mark Lapedus, head of product development at Liberty Investments: "Market conditions in general have an impact on all investments including retirement savings. Inflation will contribute to the client's income goal increasing over time and market volatility will affect the value of the savings and, as a result, the benefit that this can produce.

"Having said that, this is not necessarily a bad thing – consider a client who only invests in cash where the volatility is very low. He will probably have a worse outcome over the long term, compared with a client in a portfolio that can produce returns ahead of inflation even if the portfolio is volatile."

Keep in mind, says Braam Fouché, financial adviser at PSG Wealth, that investment returns are a net result of asset allocation – your choice of assets – less fees. He says you need to "ensure your savings vehicles are cost-effective, completely transparent and reviewed regularly, with a clear indication of contributions, costs and returns. Some companies furnish you with an elaborate annual statement that includes all but your real results."

It's never too late to save – ensure your financial independence during retirement by starting today. Do this by consulting a financial adviser and looking into savings vehicles.

Says Fouché: "Through careful planning and allocating your capital to diverse assets, you can achieve a comfortable retirement. Savings are not only the fixed debit-order or employment-based retirement plan you sign up for, but also the assets you acquire, like property and equity, along the way. The combination of these plus personal savings and employment-based savings should be focused collectively to generate this exact result [a comfortable retirement]." ■

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Gallo Images/iStock

THE POWER OF **COMPOUND INTEREST**

Taking inflation and market volatility into account today, how much would a 20- or 30-year-old have to save to retire comfortably?

Michelle Dubois, legal specialist at Liberty, says: "The longer you delay to start your savings plan, the more you are going to have to save. Using a basic future value calculation, we can compare two 20-year-olds who wish to retire at the age of 60. Client A saves R1 000 a month from the age of 20 to the age of 30. He then stops contributing but leaves the funds invested until he reaches 60. Client B, on the other hand, saves R1 000 from the age of 30 until he retires at 60.

"Assuming a growth rate of 10% for both A and B the results are as follows: Client A will have saved a total of R1 000 x 12 months x 10 years = R120 000. Client B will have saved R1 000 x 12 x 30 years = R360 000. At the age of 60, Client A will have capital valued at R4m, whereas client B will have only R2.3m. This shows the cost of delay."

Should your business be **moving sales online**?

BY JESSICA HUBBARD

Companies reportedly gain 44% in order value by going online. And global B2B online retail is projected to reach nearly R85tr by 2020. Could your business also benefit from e-commerce?

While much has been written on e-commerce from a business to consumer (B2C) perspective, little attention is being paid to the business-to-business (B2B) e-commerce sector. Indeed, B2B is often thought of as the unfashionable older brother of B2C e-commerce – yet the potential scope and growth opportunities this market presents are anything but dull.

In its Future of B2B Online Retailing report, released in December, analyst firm Frost & Sullivan projected that global B2B online retail would reach a staggering $6.7tr (R84.5tr) by 2020.

BELOW THE RADAR

Neil Watson, the CEO and founding partner of local agency Digital Planet, says the local B2B e-commerce market is potentially huge, but explains that many transactions are "below the radar" – making it difficult to quantify just how big the local market really is.

"It's big, but nobody knows how big," says Watson. "B2C is estimated to be worth about R6bn [in SA] and I've heard estimates for B2B e-commerce which are three to four times that… we have one B2B customer that is bigger than all our B2C customers combined."

Rian Bornman from FlightSite Agent, a registered online travel provider, cites his industry as one example where the online B2B marketplace is booming.

"Our estimates put the size of the independent work-from-home travel market at approximately R3bn per annum," he says. "Furthermore, it is the fastest growing segment of the approximately R37bn South African travel industry."

Rian Bornman
FlightSite Agent

"THE ONLY BARRIER IS FOR MANAGEMENT TO UNDERSTAND HOW B2B E-COMMERCE CAN SERVICE THEIR PARTICULAR MARKET."

Bornman notes that B2B as a business model "has exploded" primarily because of the flexibility and potential financial upside it offers willing entrepreneurs.

"Locally, I believe B2B platforms – not only in travel – offer the unique opportunity to unlock value through job creation, skills transfer and stakeholder transformation; all equally important goals in a South African context," he says.

SMART BUSINESS STRATEGY?

According to Digital Planet's Watson, there are two main reasons that companies are starting to explore B2B e-commerce. "One is growth into new markets as you get ability to leverage your e-commerce platform to service markets you couldn't before," he says.

"The second is to allow low-cost transaction efficiencies. Companies are quickly realising that they can't service all their customers in the same way, so the smaller customers are often pushed to a low-touch self-service e-commerce platform which allows the sales reps to focus on the large key customers."

Without doubt, the need for increased efficiencies and cost savings are proving to be a major factor and studies are indicating that when harnessed correctly, B2B platforms can certainly achieve this.

In its 2015 report on the B2B market, eCommerce Insights.com found that leveraging B2B e-commerce "could have lucrative results for the organisation". The report showed that companies have seen a 44% increase in average order value; 50% of organisations have reduced acquisition costs; and 52% reported decreased support costs. It also found that the more channels customers buy from, the more money they spend (and the more loyal they are).

THE SKILLS GAP

Yet, as with any major shift, businesses will have to overcome a few key challenges in order to truly get to grips with e-commerce.

In Watson's view, there are a few barriers to entering the online B2B market. He points to the fact that the technology "is easily available, every organisation has bandwidth and business people are on the Internet".

"The only barrier is for management to understand how B2B e-commerce can

service their particular market and find a way to execute," he says. "The biggest challenge is skills in South Africa... e-commerce experience is hard to come by."

He cautions that while there are many development houses ready to build solutions, the real challenge of e-commerce is the running of the website and the constant analytics and optimisation required to make it work.

"It's important to have the right skills in place to get a return on your investment," he says.

WHERE DOES IT WORK?

So how does one decipher if moving B2B functions online will really pay off? Many business leaders are uncertain whether their particular industry, for example, lends itself to e-commerce.

Watson has a simple approach to this question: "The more commoditised your product, the easier it is to start taking advantage of the efficiencies of e-commerce."

Looking at FlightSite Agent as an example, Bornman demonstrates how travel has proved a good fit for the B2B model.

"The US and Asia are leading the way and creating thousands of travel entrepreneurs," he says. "Other successful e-commerce examples include Alibaba, the world's biggest B2B marketplace; as well cosmetics, and health food with examples such as Herbalife.

"Locally, Pres Les is a company allowing entrepreneurs in South Africa to sell on décor and home products to their networks." ■

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MAKING THE TRANSITION ONLINE?

Neil Watson of Digital Planet provides some practical tips to succeed with B2B e-commerce:

1. UNDERSTAND YOUR MARKET

Before you start working on your e-commerce project, understand what your customers and competitors are doing. It gives you context for your investment and also allows you to create realistic goals for the project.

2. KNOW WHAT YOU'RE TRYING TO ACHIEVE

We spend a lot of time making sure the objectives of the project are clear. Planning is by far the most important part of the project. We often see customers who want a website but because they don't have clear objectives, don't know how to decide what level of investment to make.

3. INVEST FOR THE LONG TERM

E-commerce takes time. The technology is easy; it's understanding the customer behaviour that takes time. If you take the long-term view, it allows you to make the right investment to deliver value for your customers.

4. INVEST AT THE RIGHT LEVELS

Many companies believe the more expensive the technology, the safer it is. The real risk is complexity. Many companies try to start their e-commerce journey with massive projects that are doomed to fail. E-commerce is built by iterating and improving in small increments.

5. GET THE WHOLE COMPANY BEHIND IT

We often see the CEO pushing the initiative but without buy-in from the sales organisation. It simply won't work. Where we've seen collaboration between senior management and the people on the ground, with clear goals for the project, we see massive success.

Neil Watson
CEO and founding partner, Digital Planet

Directors' Dealings

Company	Director	Transaction Date	Transaction Type	Volume	Price (c)	Value (R)	Date Modified
AMECOR	KA Colley	16 July	Sell	22,936	230	52,752	24 July
AMECOR	KA Colley	17 July	Sell	30,000	230	69,000	24 July
AMECOR	KA Colley	20 July	Sell	1,180,000	230	2,714,000	24 July
AMECOR	KA Colley	16 July	Sell	22,936	230	52,752	27 July
AMECOR	KA Colley	17 July	Sell	30,000	230	69,000	27 July
AMECOR	KA Colley	20 July	Sell	1,180,000	230	2,714,000	27 July
ANSYS	N Mjoli-Mncube	20 July	Purchase	4,000,000	40	1,600,000	24 July
ELLIES	MR Goodford	17 July	Purchase	80,000	110	88,000	27 July
ELLIES	MR Goodford	17 July	Purchase	80,000	110	88,000	24 July
ELLIES	RE Otto	17 July	Purchase	9,372,029	110	10,309,231	24 July
ELLIES	RE Otto	17 July	Purchase	9,372,029	110	10,309,231	27 July
ELLIES	ER Salkow	17 July	Purchase	27,272,723	110	29,999,995	24 July
ELLIES	ER Salkow	17 July	Purchase	27,272,723	110	29,999,995	27 July
GRWTHPNT	NBP Nkabinde	15 February	Purchase	4,000	2965	118,600	29 July
HUDACO	CV Amoils	28 July	Sell	5,447	13070	711,922	29 July
INVICTA	CH Wiese	27 July	Purchase	90,000	6296	5,666,400	29 July
NASPERS	J Volkwyn	24 July	Exercise Options	10,910	182500	19,910,750	28 July
SANTOVA	ESC Garner	20 July	Purchase	60,277	300	180,831	28 July
SOVFOOD	BJ Van Rensburg	24 July	Purchase	5,000	763	38,150	28 July
TASTE	CF Gonzaga	20 July	Exercise Options	613,112	43	263,638	28 July
TASTE	CF Gonzaga	28 July	Sell	613,112	472	2,893,888	28 July
TASTE	A Smedsrud	27 July	Sell	240,000	472	1,132,800	27 July
TFG	BJ Curry	17 July	Exercise Options	1,190	15737	187,270	27 July
TFG	D Friedland	17 July	Exercise Options	765	15737	120,388	27 July
TFG	DB Gedye	17 July	Exercise Options	8,729	15737	1,373,682	27 July
TFG	M Lewis	17 July	Exercise Options	202,738	15737	31,904,879	27 July
TFG	M Lewis	17 July	Exercise Options	1,931	15737	303,881	27 July
TFG	M Lewis	17 July	Exercise Options	202,738	15737	31,904,879	27 July
TFG	M Maritz	17 July	Exercise Options	243	15737	38,240	27 July
TFG	PS Meiring	17 July	Exercise Options	1,069	15737	168,228	27 July
TFG	PS Meiring	17 July	Exercise Options	6,070	15737	955,235	27 July
TFG	M Mendelsohn	17 July	Exercise Options	1,069	15736	168,217	24 July
TFG	M Mendelsohn	17 July	Exercise Options	6,070	15736	955,175	24 July
TFG	AD Murray	17 July	Exercise Options	14,449	15737	2,273,839	27 July
TFG	AD Murray	17 July	Exercise Options	24,932	15737	3,923,548	27 July
TFG	E Oblowitz	17 July	Exercise Options	43	15737	6,766	27 July
TFG	D Sheard	17 July	Exercise Options	47	15736	7,395	24 July
TFG	NV Simamane	17 July	Exercise Options	33	15737	5,193	27 July
TFG	R Stein	17 July	Exercise Options	5,977	15737	940,600	27 July
TFG	R Stein	17 July	Exercise Options	15,948	15737	2,509,736	27 July
TFG	A Thunström	17 July	Exercise Options	256	15737	40,286	27 July
TRADEHOLD	FH Esterhuyse	20 July	Purchase	5,180	1930	99,974	24 July
TRADEHOLD	FH Esterhuyse	20 July	Purchase	5,180	1930	99,974	27 July
TRUSTCO	J Jones	17 July	Sell	185,000	495	915,750	24 July

Dividend ranking

SHARE	FORECAST DPS (c)	FORECAST DY (%)
EQSTRA	24	10.3
REBOSIS	109	9.6
LEWIS	536	8.2
VUKILE	147	8.0
ACCPROP	54	7.9

SHARE	FORECAST DPS (c)	FORECAST DY (%)
EMIRA	134	7.6
OCTODEC	190	7.6
ASTRAL	1200	7.5
REDEFINE	80	7.2
ASSORE	580	6.9

Vox Telecom on an expansion drive

Jacques du Toit
CEO of Vox Telecom

> THE ACQUISITION OF FROGFOOT WILL HASTEN VOX TELECOM'S MOVE INTO THE **FAST-GROWING** FIBRE MARKET.

BY GUGU LOURIE

Vox Telecom is taking big bets on acquisitions and fibre roll-out as part of a five-year strategy to make the company more competitive and agile.

The company, which was delisted from the JSE's AltX in 2011 after a R500m buyout by shareholders including Lereko Metier Capital and Investec, offers voice solutions, data access and internet service provider (ISP) services, cloud services, a variety of PABX (private automatic brand exchange) and video conferencing services, telephony management systems, faxing and text messaging applications. PABX is an automatic telephone switching system used by corporates.

After the withdrawal of an exploratory process to sell the business (started in July last year), Vox developed its five-year strategy this January. Thereafter, the company's shareholders provided the management of Vox Telecom with a war chest to reinvent the business and compete aggressively.

CEO Jacques du Toit says the strategy is based on four pillars: doubling the sales team, acquisitions, getting into other product streams and automation.

"The moment we start seeing traction and success in the current strategy… I think that the war chest will have the ability to grow a little bit, but our role now is to show our shareholders that our strategy is paying dividends," he says. The size of the "war chest" has not been disclosed.

The ultimate aim is to ensure that Vox Telecom delivers superior services and products to its customers, enabling it to maximise shareholder value.

As part of the strategy, on 22 July Vox Telecom made its foray into the lucrative fibre-to-the-home (FTTH) and fibre-to-the-business (FTTB) sectors by acquiring Frogfoot Networks, an ISP. The acquisition of Frogfoot for an undisclosed amount will hasten Vox Telecom's move into the fast-growing fibre market. This will allow the company to deploy fibre to cities such as Bloemfontein, Mmabatho, and Polokwane, allowing it to service close to 80 precincts.

Du Toit is still on the lookout for more buys. "We've got another 13-odd companies on the radar. That list expands and shrinks on a daily basis, because the most important two aspects for us are whether it [the company being targeted] supports our vertical integration strategy and, secondly, whether it allows us to diversify," he explains.

Last October, Vox Telecom bought Two IT and Computer Initiatives, which provide specialist consulting in Microsoft Dynamics and business applications. In June, the company also bought Wishlist Corporation, making Vox Telecom one of the largest Microsoft Dynamics partners for the mid-market in Southern Africa.

Du Toit says the company is talking to "one or two more companies as well" to expand its consulting and integration capabilities.

Vox's communications unit offers a "phenomenal and exciting road ahead", Du Toit says. In July, it used this unit to launch a first to market uncapped voice package in areas where it is rolling out FTTH. "We will very shortly be launching a converged, uncapped voice, PABX and video conferencing bundle for the corporate market," he adds.

"The ultimate aim is to provide solutions that will enable our customers to be successful. If the customers are successful in their businesses, Vox will also be successful," he explains. "What's easy is that, from a shareholder perspective, we know what needs to be done. The executive is crystal clear on what needs to be done." ■

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Ignore the unions at your **peril**

BY MAMOKGETHI MOLOPYANE

Gallo Images/iStock

THE BROADER ECONOMIC IMPACT OF AN UNHAPPY LABOUR CONTINGENT HAS LONG-LASTING RAMIFICATIONS.

I recently attended a partnership breakfast session that aimed to build relationships between the private and the public sectors. It was one of those events where powerful men and women pat one another on the back and commit to a future of collaboration, but the moment they are out of the door, they mutter to their associates: "There's no way this will work."

But that's not what irked me most about the event. During breakfast, as is so often the case with South Africans, we got talking about the state of the nation. And then someone at our table made a comment about "South Africa's obsession with labour".

The first point is that as a person in the business sector, surely he should understand how the activities of unions and their federations occupy the attention of the economist, the politician and the man on the street. In any economy – developed or developing – labour is required for the making of goods and the supply of services. For politicians, especially in the alliance, widespread ire by Cosatu members, even in the federation's current weakened state, could mean the loss of support they need for the election machinery to function.

The broader economic impact of an unhappy labour contingent has long-lasting ramifications. Three recent strikes had such an impact on the economy: the 2006 security sector strike, the month-long 2007 public sector strike, and the record five-month-long platinum sector strike in 2014, which was the longest this country has ever seen.

The implications of SA's obsession, as he put it, with labour, far outstrip the span of a column. Even if we tried, we can't ignore labour; they are a permanent thorn in the side of SA's economy – sometimes irritating but not something that can be ignored.

Consider the state of the private sector: jobs are not fast coming; mining is on track to having one of the biggest retrenchments across all its sectors in its history. SA's workers can see how steeply business and its ability to create jobs has declined.

Now let's look at the public sector, the country's biggest employer. Remember that the bulging public sector must be paid for with government revenue, a dwindling resource.

It would be foolish to forget the might of the whip of unions on both government and the private sector. But if the current economic outlook continues, SA is headed for a recession, if we're not already in one.

Looking at how matters may evolve over time, one wonders if private sector workers, whether they belong to a union or not, can see that without compromises they may be forced to join the ranks of the unemployed.

The bargaining power of workers in the public sector looks substantially different. They've become a powerful political organisation; they can shut down schools and hospitals, disrupt tax collection and government services. While the former will have the public up in arms, the latter two possibilities should fill government with visceral fear.

There is an overarching point I want to make that transcends the murmurings of an executive about SA's obsession with unions. To think, no, to *assume* that unions and labour are merely social organisations fighting for better wages and working conditions for their members, or for the betterment of society, is to lull oneself into false comfort.

History has shown us that in this country, unions are straddling the economy, and they won't be letting go for a while. In the political economy, they have an ability to tip the scales. So we rightfully obsess about their activities. To ignore them would be arrogantly blind. ■

Mamokgethi Molopyane is the chief research analyst: mining and labour at Creative Voodoo Consulting.

TEST YOUR **KNOWLEDGE**

It's time for another quiz! This week one brainy reader could win a copy of *The E-Toll Saga: A Journey from CEO to Civil Activist* if they get all the answers right. The book details how Wayne Duvenage started the Opposition to Urban Tolling Alliance (Outa) and the challenges the organisation faced in its ongoing quest to bring down the e-tolls. Complete the quiz online on finweek.com to enter.

1 InterActiveCorp was featured in last week's Pro Pick. True or false? The company sells software.

2 Recently, Zimbabwe's "favourite lion" was killed by a US hunter. What was the animal's name?

3 Which local city has been rocked by protests after residents objected to the closing of schools in the area?

4 **True or false?** Stephen Hawking is Elon Musk's new business partner.

5 Who or what is Kepler-452b?
- An Earth-like planet
- A local trance DJ
- A new mining project belonging to Anglo American

6 **True or false?** US president Barack Obama also visited Ethiopia on his recent trip to Africa.

7 Which natural landmark and visitor attraction in the Western Cape narrowly escaped closure?

8 Which online accommodation platform wants to expand aggressively in South Africa?
- E-Hotel
- Airbnb
- sleepeasy.com

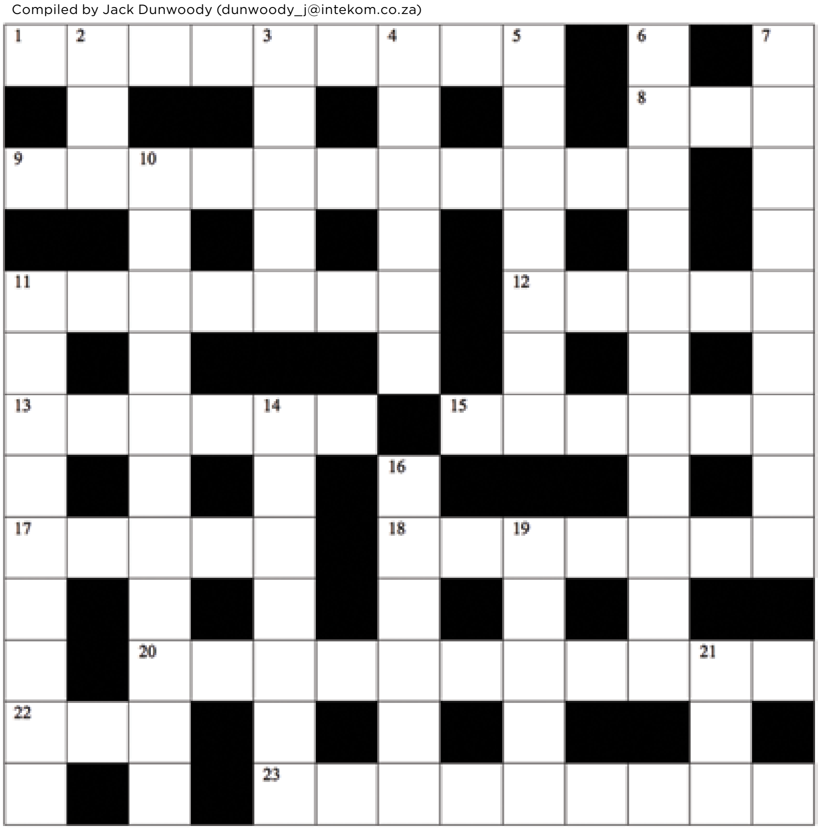
9 Name the capital city of North Korea.

10 **True or false?** Nathi Nhleko is the SA minister of public works.

CRYPTIC CROSSWORD

NO 593 JD

Compiled by Jack Dunwoody (dunwoody_j@intekom.co.za)



ACROSS

1 Dessert biscuit? (9)
8 Rubbish joke (3)
9 In favour of, for example, elaborate renovation (9,2)
11 Disputes the kind of bird it is (7)
12 I ring around for a Greek story (5)
13 Compiler in emphatic form (6)
15 Yeah, another member of the pack (6)
17 Girl goes to a city in Tibet, forbidden to foreigners (5)
18 Angry men in onslaught – quite a scrap (7)
20 Insubordinate individual (11)
22 Man lacking capital for the long term (3)
23 Complaint after angry game (3,6)

DOWN

2 Bet without hesitation on card (3)
3 Belonging to the people at that place, we hear (5)
4 Be slow around the corners (6)
5 Flower girl always goes around in a wary manner (7)
6 Grow a trifle uneasy when being held by frayed rope (11)
7 Help to get quickly established (9)
10 Having another look at rating? (11)
11 Hyped up but no time for imitation (9)
14 Hero-worshipper? (7)
16 Nervous but tried gamely to absorb the pressure (6)
19 Roman ruins in area covered by police station (5)
21 Short lots of new old stock (3)

Solution to Crossword NO 592 JD

ACROSS: 1 Annual; 4 Feigns; 9 Carrying-trade; 10 Schemer; 11 Nudge; 12 Mavis; 14 Mocha; 18 Estop; 19 Stoolie; 21 Trial and error; 22 Redeem; 23 Sponge

DOWN: 1 Accost; 2 Northeast wind; 3 Abysm; 5 Eat into; 6 Grandchildren; 7 Skewer; 8 Inert; 13 Impulse; 15 Letter; 16 Using; 17 Hearse; 20 One-up

ON MARGIN

LAWYERS IN HEAVEN

The Pope and a lawyer are taking the elevator to heaven.

When they arrive at the gates, there's a mad rush of angels, saints and other holy people on their way to greet them.

When they arrive, they pick the lawyer up on their shoulders and carry him off cheering hysterically. The Pope is deeply saddened.

St Peter sees this and goes over to him and says: "Don't feel bad. We get popes in here all the time; it's not every day we get a lawyer!"

*

A lawyer dies and goes to heaven. "There must be some mistake," the lawyer argues. "I'm too young to die. I'm only 55."

"Fifty-five?" asks St Peter. "No, according to our calculations you're 82."

"How did you get that?" the lawyer asks, incredulously.

St Peter answers: "We've added up your time sheets."

LATE-NIGHT FIBS

A small boy is woken by a huge crash of thunder. He runs into his parents' bedroom, where his father comforts him.

"Don't be afraid of the thunder," he says. "It's just a noise that God makes when someone tells a lie."

"But why is it thundering now?" asks the boy. "It's the middle of the night, and everyone is asleep."

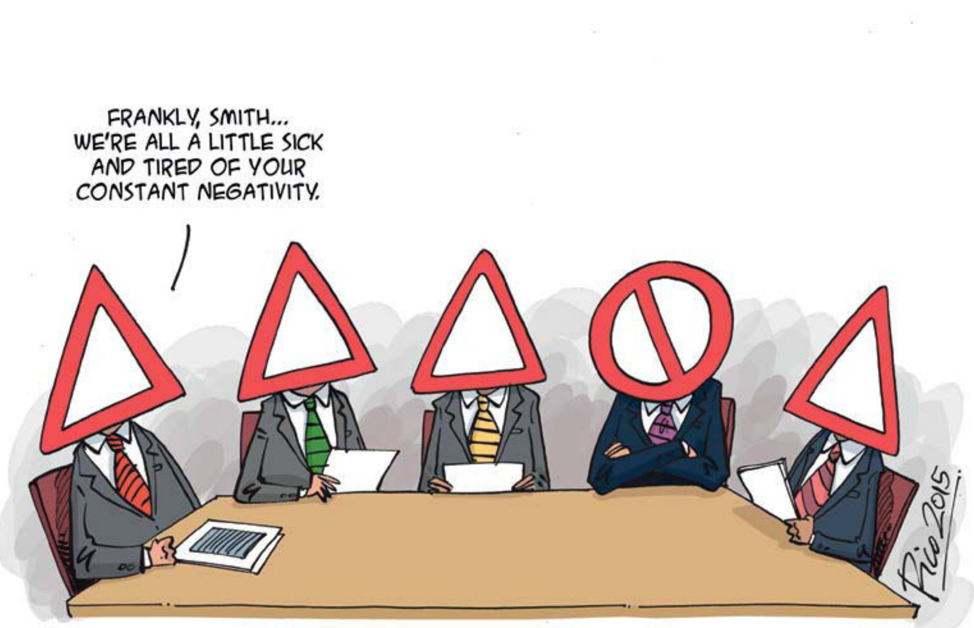
"I know," replies the father. "But it's around this time that they start printing the newspapers."

WHEN THE HUNTER...

A big-game hunter goes on safari with his wife and his mother-in-law. One evening, the wife wakes up to find her mother gone. She rushes to find her husband. He picks up his rifle, and they go out to look for her.

In a clearing not far from the camp, they come upon a chilling sight – the mother-in-law is backed up against a rock with a fierce lion facing her. "Oh no," cries the wife. "What are we going to do?"

"Nothing," says her husband. "That lion got himself into this mess. He can get himself out of it."



VERBATIM

Drew Hinshaw @drewfhinshaw
#IfAfricaWasABar the bartender would apologize about the loud Nigerian table but explain that they're the ones keeping the place in business.

Imran Garda @ImranGarda
#IfAfricaWasABar Mugabe is the guy who still doesn't leave even when the barman puts up all the stools and switches off all the lights.

Zenaida Machado @zenaidamz
#IfAfricaWasABar Angola would be the guy who is facing a financial crisis, but takes out a loan to buy Moët&Chandon & maintain his status quo.

Helen Moffett @Heckitty
#IfAfricaWasABar, the South Africans would be looking round hopefully to see if China or Russia would buy them drinks.

Stina Knowles @PILLAY_CGLM
#IfAfricaWasABar Lesotho would be that person who nobody really knows but is always in the pictures.

Ryan Cummings @Pol_Sec_Analyst
#IfAfricaWasABar #Burundi will be that guy on the phone promising his wife he'll just be staying for two drinks whilst ordering a third.

Mchenge @Sikho_N
#IfAfricaWasABar South Africa would sneak Sudan out without paying their bill.

Love Lula @BanNgidi
#IfAfricaWasABar Egypt, Libya, Morocco & Tunisia would be those girls who complain that they don't like it here, they club up the road.

Mimi Amina @MimiMimzamina
#IfAfricaWasABar Rwanda would be in the corner quietly drinking her milk.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